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MARITIME ADMINISTRATION AUTHORIZATION

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

S. 2499

TO AUTHORIZE THE APPROPRIATION OF FUNDS FOR CERTAIN MARITIME PROGRAMS FOR FISCAL YEAR 1985

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MARITIME ADMINISTRATION AUTHORIZATION

THURSDAY, APRIL 5, 1984

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room SR-253 Russell Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: David Dye, staff counsel; and John Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. The Subcommittee on Merchant Marine is meeting today to take testimony on S. 2499, a bill to authorize the appropriation of funds for programs of the Maritime Administration and the Federal Maritime Commission.

S. 2499 is consistent with the administration's budget with two additions: $3 million for fuel oil used by State academy training ships and restoration of student incentive payments to last year's funding level, an addition of $77,000.

With these additions, the bill funds MarAd activities at a total of $463.6 million. This is an overall decrease of $22.4 million or about 5 percent below the appropriation for fiscal year 1984.

S. 2499 does not contain funding for construction differential subsidies, as is consistent with the administration budget request. Operating differential subsidies are authorized at $377.8 million, a level sufficient to meet existing contracts with 17 operators for support of 124 liners and 18 bulk vessels. The bill contains no funding for settlement and termination of contracts.

Research and development activities of MarAd are authorized in the bill at $10 million. This is a $1.39 million reduction from fiscal year 1984 and reflects a decreased emphasis on applied research. The President's budget includes a proposal to transfer $7 million of unused ship construction funds appropriated in fiscal year 1983 to offset the fiscal year 1985 appropriation for this account.

The remaining $75.8 million to be authorized is for operation and training activities of MarAd. This category includes salaries and other expenses for the U.S. Merchant Marine Academy, the six State academies, support of the National Defense Reserve Fleet, emergency planning, and other operations and training expenses.

Finally, the bill authorizes activities of the FMC at the administration's requested level of $12.3 million for fiscal year 1985. This is an increase of $1.35 million above the fiscal year 1984 budget

which is due primarily to organizational and operational changes made necessary by enactment of the Shipping Act of 1984.

Based on past testimony before this subcommittee, I anticipate that some of today's distinguished witnesses will suggest a more complex mix of promotional programs than contained in this bill or the administration budget. This subcommittee is always ready to consider reasonable suggestions from the industry. However, I feel constrained to note that Congress has not passed a maritime authorization bill for 3 years. This has occurred primarily because of controversial amendments which were attached to these bills. This year I detect new resolve in both Houses of Congress to pass bills without such impediments. At the urging of Mr. Biaggi, the full House Merchant Marine and Fisheries Committee has, in fact, passed such a bill.

On a more general level, I would like to note that the success of any effort to pull U.S. merchant marine from its current doldrums will depend upon the willingness of the industry to compromise and to approach issues with flexibility.

Senator Inouye has an opening statement for the record.

[The statement and bill follow:]

OPENING STATEMENT BY SENATOR INOUYE

Today the committee considers S. 2499 to authorize funding for the programs of the Maritime Administration for fiscal year 1985.

Despite the efforts of many in Congress and the U.S. maritime industry, the objectives of our national maritime policy are unrealized, and all segments of the industry—liner, bulk, shipbuildings, and labor—are severely threatened.

While I believe achievement of those policy objectives is essential to the national interest, it has become increasingly evident that the statutory programs and policies for realizing them have not done so.

Some critics say that many of those programs and policies are unrealistic and outdated. Others maintain that whatever their worth, our severely limited federal funds must be spent for other programs which have a higher national priority.

On the other hand, anyone conversant with world maritime affairs knows that substantial government assistance in one form or another is absolutely essential to a strong, viable merchant marine. In this regard the commitment of successive administrations has become progressively weaker since the 1970 enactment of major amendments to the Merchant Marine Act of 1936.

Further complicating the problem are uncontrollable international economic and political factors which have adversely affected substantial segments of the maritime industry throughout most of the world.

Whatever reasons explain the failure of our existing programs and policies, the economic and political facts of life dictate that at least for the near term, we cannot realisticially expect substantial increases or expansion of the traditional forms of subsidy. It therefore seems to me that we must either find alternatives—federal and private—that are economically and politically realistic, or accept the demise of the U.S. maritime industry.

Meanwhile, we have been asked to consider the Administration's funding request to continue the programs of the Maritime Administration for fiscal year 1985. I believe everyone concerned with the U.S. merchant marine realizes that that request in and of itself will only postpone the inevitable, and much more needs to be done if our merchant marine is to survive and prosper. I would hope therefore that we can act expeditiously on this interim measure, and soon address the fundamental problems and find solutions for them.

[S. 2499, 98th Congress, 2d Session]

A BILL To authorize the appropriation of funds for certain maritime programs for fiscal year 1985

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Maritime Appropriation Authorization Act for Fiscal Year 1985".

SEC. 2. Funds are authorized to be appropriated without fiscal year limitation as the Appropriation Act may provide for the use of the Department of Transportation for fiscal year 1985 as follows:

(1) for payment of obligations incurred for operating-differential subsidy, not to exceed $377,750,000;

(2) for expenses necessary for research and development activities, not to exceed $10,000,000; and

(3) for expenses necessary for operations and training activities, not to exceed $75,807,000, including not to exceed—

(A) $37,550,000 for maritime education and training expenses, including not to exeeed $21,940,000 for maritime training at the Merchant Marine Academy at Kings Point, New York, $11,200,000 for financial assistance to State maritime academies, $3,000,000 for fuel oil assistance to State maritime academy training vessels, and $1,410,000 for expenses necessary for additional training;

(B) $9,111,000 for national security support capabilities, including not to exceed $7,506,000 for reserve fleet expenses, and $1,605,000 for emergency planning/operations; and

(C) $29,146,000 for other operations and training expenses.

SEC. 3. Funds are authorized to be appropriated for the use of the Federal Maritime Commission, in the amount of $12,292,000 for fiscal year 1985.

Senator STEVENS. I want to also state at the outset that Senators Cohen and Mitchell have asked that written questions be submitted to Admiral Shear for the record. There is also a letter signed by 10 Senators, Senators Cohen, Wilson, D'Amato, Bentsen, Tower, Mitchell, Tsongas, Kennedy, Moynihan, and Cranston that they wish to have submitted.[1]

We will also submit for the record a letter from Alan Green, Chairman of the Federal Maritime Commission, describing that agency's budget for the coming year and giving an overview of the Commission's activities and accomplishments.

Our first witness today is Admiral Harold W. Shear, the Maritime Administrator for the Department of Transportation. Do you have a statement, Senator?

Senator GORTON. No.

STATEMENT OF ADM. HAROLD E. SHEAR, ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

Admiral SHEAR. Good morning, Mr. Chairman, members of the committee.

I had intended to request permission to read a statement of a few pages. However, in the interest of saving time, I will read a one-page statement summary, if that is satisfactory, Mr. Chairman.

Senator STEVENS. Thank you very much.

Admiral SHEAR. First of all, let me say that the Maritime Administration is charged with promoting the development of the American maritime industry in the context of the worst worldwide slump in shipping and shipbuilding in more than 50 years. The

[1] See p. 25.

Maritime Administration has vigorously pursued this goal through efforts at reforming outmoded practices and programs.

The Maritime Administration's 1985 budget request seeks authorization for a total of $454.4 million. This includes $377.7 million for operating differential subsidies, $10 million for research and development, including a deferral and transfer of $7 million in unused construction differential subsidy appropriation, and $72.7 for operations and training.

The appropriations request for operating differential subsidies totals $377.7 million, and this will support the operation of 124 liner and 18 bulk vessels.

The requested $10 million for research and development reflects a reduction of $1.3 million from the level of the 1984 appropriation. The request for operations and training is $72.7 million, which is $550,000 below the 1984 appropriation; $21.9 million is for the U.S. Merchant Marine Academy at Kings Point; $11.1 million for the State marine school programs for the six State schools; and $1.4 million for additional training.

For the national security support capability account we are requesting $9.1 million. This includes $7.5 million for the National Defense Reserve Fleet and $1.6 million for emergency planning and operations. And finally, $29.1 million is requested for other operating expenses.

That is a one-page summary, Mr. Chairman. I'll be pleased to answer any questions which you may have.

Senator STEVENS. Thank you very much.

Do you have any questions, Senator Gorton?

Senator GORTON. No questions.

Senator STEVENS. We have about six questions. I would like to submit them to you if I may.

Admiral SHEAR. I would be happy to answer them for the record.

Senator STEVENS. And Senator Inouye has some also. I would appreciate it if you would respond for the record.

Admiral SHEAR. I will respond for the record.

[The statement follows:]

STATEMENT OF ADM. H. E. SHEAR, ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

Mr. Chairman and members of the committee, The Maritime Administration (MARAD) is charged with promoting the development of the American maritime industry. In the context of the worst slump in shipping and shipbuilding in over 50 years, MARAD has vigorously pursued this goal through efforts at reforming outmoded practices and programs.

Our 1985 request balances the need to meet responsibilities for promotion of the American maritime industry with allowance for overall budget realities. It calls for the authorization of a total appropriation of $453,480,000. This comprises $377,750,000 for Operating-differential Subsidies, $10,000,000 for Research and Development including a deferral and transfer of $7,000,000 in unused Construction-differential Subsidy appropriation, and $72,730,000 for Operations and Training. Some of the details behind these three elements of our request are as follows:

OPERATING-DIFFERENTIAL SUBSIDIES

The Merchant Marine Act of 1936 provides that operating subsidies equal the differential between certain U.S. and foreign ship operating costs. The Operating-differential Subsidy program covers wages, maintenance and repair, some insurance costs, and, for some vessels, subsistence.

The Administration continues to meet its obligations under existing Operating-differential Subsidy contracts. The appropriation request for Operating-differential Subsidies totals $377,750,000. This will support the operation of 124 liner and 18 bulk vessels. The total is $25,250,000 greater than the 1984 total of $352,500,000 for the same account.

RESEARCH AND DEVELOPMENT

The Maritime Administration's Research and Development program works to make the U.S. shipbuilding and ship operating industries more productive and competitive. Our research activities address problems that individual companies could not undertake within their own limited resources and which are beneficial to the maritime industry as a whole, and focus on longer term problems rather than those of an operational nature.

The 1985 request for Research and Development is $10,000,000 which involves authorization of $3,000,000 in new appropriations. The $7,000,000 difference would be an appropriation transfer from unused Ship Construction funds. The requested $10,000,000 reflects a reduction of $1,385,000 from the level of the 1984 appropriation, reflecting a reduction in emphasis on applied research.

OPERATIONS AND TRAINING

The request for Operations and Training is $72,730,000, $553,000 below the 1984 appropriation.

We are requesting $34,473,000 for Maritime Education and Training. Of this amount, $21,940,000 is for the United States Maritime Academy at King's Point, New York. Increases over the amount appropriated in 1984 include $640,000 for the modernization program, and $1,034,000 to cover increases in pay and in other operating expenses. Including this requested increase, the modernization appropriation will total $2,340,000 and will cover the first of two phases of a program to renovate student barracks service areas.

We are requesting $11,123,000 for assistance to the six state marine schools (California, Maine, Massachusetts, Michigan, New York, and Texas). This total includes $600,000 for direct payments to the schools; $2,523,000 for student incentive payments; and $8,000,000 for schoolship maintenance and repair. The request for student incentive payments reflects a reduction of $77,000 below the 1984 level as the first step in a four-year program to reduce the total number of such payments by 50 percent. The number of U.S.-flag ships and the associated demand for officers has declined since the current quota system was established in the early 1970's. The request for schoolship maintenance and repair includes an increase of $523,000 for cost increases. No funds are requested for fuel, as we consider it to be a function of the individual States to fund ship operating costs.

I am pleased to tell you that the Maritime Administration has recently purchased the *Santa Mercedes* from Prudential Lines to replace the Massachusetts Academy Schoolship, TS *Bay State*. $10,000,000 had been carried over from 1983 to acquire and convert a replacement vessel. While no precise estimate is yet available as to what the overhaul and conversion would cost, $5.8 million remains available for towing, overhaul and conversion of the ship to schoolship configuratin. The work will be kept as austere as possible and reasonable for a capable training ship.

Finally, we are seeking $1,410,000 for the Additional Training Program. This activity encompasses training in shipboard firefighting and diesel engine operation and maintenance as well as the administration of the Merchant Marine Academy and state maritime school programs at the headquarters level. The requested funds include an increase of $38,000, primarily to cover pay increases.

For the National Security Support Capability account we are requesting $9,111,000. This includes $7,506,000 for the National Defense Reserve Fleet (NDRF) and $1,605,000 for Emergency Planning/Operations. An increase of $635,000 over the 1984 amount is sought for the initiation of a two-year program to construct 11 general purpose workboats for the reserve fleets. An additional increase of $428,000 is requested to cover pay increases and the escalation of operating expenses in the National Security activities. Each of the two National Security Support Capability programs is directly supportive of the Maritime Administration's national security responsibilities. Finally, $29,146,000 is requested to cover Other Operating Expenses, that is, expenses incurred for the pay and allowances of our headquarters and region staffs not covered under any of the accounts thus far mentioned, plus headquarters and regional overhead costs. The requested $29,146,000 is $783,000,000 below the 1984 appropriation level for this account as a result of management savings, which will more than offset expected increases in pay and other costs.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR STEVENS AND THE ANSWERS THERETO

Question. You stated in your written testimony that funds allocated for conversion of santa MERCEDES will provide for an "austere" but "capable" training ship. Could you be a little more specific on exactly how "austere" and how "capable" this vessel will be?

Answer. The *Sata Mercedes* repair and conversion will place it in full conformance with the standards of the American Bureau of Shipping and the U.S. Coast Guard, will provide quarters for 600 students plus crew and appropriate staff, and incorporate adequate training spaces and equipment.

Question. It is my understanding that student incentive payments are designed to encourage academy cadets to affiliate with the Naval Reserve. Isn't it possible, even likely, that reducing incentive payments will only deter cadets from joining the reserves rather than decrease academy enrollment?

Answer. Affiliation with the Naval Reserve is one of the conditions imposed on recipients of Student Incentive Payments (sip), the primary purpose of which is to encourage students to enter the merchant marine. The action to reduce the number of SIPs reflects the decline in seagoing employment opportunity. It is important that the Government not mislead young people into seeking such opportunity when the opportunities are declining. Many students attend the state maritime academies without the benefit of SIPs. Every eligible student at the state academies can, and is encouraged to, apply for a reserve commission.

Question. Would you please explain why MARAD regards fuel assistance to training ships as a function of the states?

Answer. In accordance with Sec. 1304(c)(1) of the Merchant Marine Act, 1936 (amended) MARAD provides training vessels to the five "salt-water" state academies. This statute requires that MARAD provide for the maintenance and repair work to keep these training ships safe and seaworthy. MARAD has traditionally considered consumables such as fuel oil to be the responsibility of each state. Responsibility for the day-to-day operation of the training ships rests with the states. Consumption of fuel oil is a variable factor depending on cruise length and speed. Incentive for fuel economy is realized when the States pay for fuel consumed during the training cruises.

Question. You stated that your R&D budget reflects a de-emphasis in applied research. Can you give me some examples of the kinds of research that will be decreased?

Answer. We are reducing our emphasis on applied research in the belief that industry should do more of this near term work on its own, leaving the Government to concentrate on long term, fundamental research.

Our cooperative work with ship operators on subjects such as data communications will be reduced in the expectation that ship operators can take up the slack. Similarly, applied research in such areas as ship design for operation and producibility, cargo handling, and ship equipment development will be cut back.

Our future R&D emphasis will be in longer term areas such as: hydrodynamics, structures, new propulsion systems or fuels, human factors, new technology, and technology transfer from other industries or other countries.

Question. How adequate is the National Defense Reserve Fleet to meet a national emergency? Please elaborate.

Answer. The National Defense Reserve Fleet, excluding its Ready Reserve Force component, comprises 152 vessels of which 124 are Victory ships built in 1944 and 1945. All are maintained under dehumidification, with emergency activation planned for the 30 to 90 days after mobilizastion begins. None would be available in time for initial deployment surge operations but all would be useful for follow-on resupply operations. This said, it should be noted that we are concerned about the reliability of the Warbuilt ships, and are watching them closely. Whether new vessels should be substituted for the old vessels and, if so, by what mechanisms this acquisition should be accomplished, is yet to be decided.

Question. There is no specific funding authority for your budget request for ODS buyouts or termination. Does that mean that you will not consider or act on any buyout proposals in FY 1985?

Answer. ODS contract terminations have not been specifically anticipated in the MARAD budget request for FY 1985. There will be no action that is inconsistent with applicable statutory and contractual provisions.

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. What is the status of the Maritime Advisory Committee?

How many meetings has it had?

What recommendations has it made for legislation?

Has the Administration acted on any recommendations of the committee?

Answer. The Maritime Advisory Committee was established with a charter approved by the Secretary of Transportation with concurrence of the General Services Administration. As established, the committee is to advise the Maritime Administrator on matters concerning the promotion of the U.S.-flag fleet of merchant vessels, the promotion of efficient vessels and personnel for shipbuilding and ship repair, the development of national maritime policy, and other matters as requested by the Maritime Administrator.

At present, the committee consists of 23 members appointed by the Secretary of Transportation. Members are chosen from a cross section of the maritime industry, including operators, labor unions representing seagoing or shoreside personnel, shippers, and other maritime-oriented organizations (such as legal, financial or associations).

The first meeting of the committee was held in June 1982. There have been a total of five meetings of the full committee to date. There are four working groups under the committee which review and discuss specific areas of concern or interests. These working groups are concerned respectively with Finance, Ship Costs, User Charges and Tankers. To date these working groups have had a total of five separate meetings.

The Finance Working Group has made recommendations to the full committee. The User Charges Working Group has also reported to the full committee, and the Ship Costs Working Group is expected to make recommendations at the next full committee meeting, which is currently scheduled for June 14.

A number of suggestions and recommendations have been made by the committee to the Administrator during discussions but no formal recommendations have yet been made, pending consideration of the findings of the working groups.

The informal suggestions and recommendations that have been made involve long term changes. The Administration is considering these with a view to determining which may be suitable for implementation.

Question. The proposal that the Government but out ODS contracts was the subject of much discussion late last year. As I understand it, one of the proposals is that the ODS operators would be paid the equivalent of five or more years of ODS earnings in consideration of the Government ridding itself of between 10 and 15 years of payment commitments under the terms of the ODS contracts. The ODS operators, thus freed from their essential trade route service requirements and their contractual duty to build vessels in American shipyards under their contract replacement obligations, would be free to use the buyout lump sum payments to build or acquire vessels foreign.

If I have correctly stated this--and correct me if I'm wrong--it seems to me that the Government is being put in the anomalous position of paying rather than receiving extra consideration for allowing ODS operators to terminate their contracts for their convenience. It also seems to me that up-front payments of this magnitude would compare favorably in terms of real value with ordinary ODS payments spread out in increments over the life of the ODS contracts.

Answer. The Maritime Administration (MARAD) has received several ODS contract termination proposals, but has approved only one, involving U.S. Lines. In that case the allowable Government payments involve only the payment of operating subsidy for subsidizable voyages actually accomplished, and thus no basic departure from past practice under the ODS program. Other proposals would involve other features, including some measure of up-front payment. MARAD is still reviewing comments received in response to a request for comments on proposed guidelines for ODS contract terminations published last fall in the Federal Register. One of the proposed guidelines was that the value of the up-front payments should be less that the present value of future payments under the existing contracts. This guideline would preclude the situation you suggest from arising. No firm rules have yet been established, and action on in-hand proposals is in abeyance. Consideration must be given to benefits that may accrue to the Government through relief from long-term ODS payments and maritime program improvements achieved through the strengthening of ship lines as they are freed from contract restrictions.

Question. In this context, could you give us your views on the wisdom of such a program? How, specifically would it aid the American Merchant Marine or the American Ship Building Industry? How precisely would it affect Government out-

lays of funds both short-term and long-term? Why wouldn't a mutually acceptable agreement for an early ODS contract termination allowing the ex-ODS operator to operate foreign built vessels unsubsidized after termination as was done with U.S. Lines be more equitable as between the operator and the Government?

If all ODS contracts are bought out and all liner operators are free to redeploy their vessels to the more lucrative trades, what is your opinion on the likelihood of a U.S.-flag liner presence in the future in smaller but strategic essential trade routes such as the ones between the United States and the Middle East?

Answer. As is indicated in the above response to the first part of the question, no formal ODS termination program has been established. We are not now in a position to say how such a program, if adopted, would precisely affect Government outlays or service on smaller but essential routes. As is made clear above, however, Government interests must be given consideration in any program that is adopted. It should be pointed out that nonsubsidized operators do not have to receive government permission to operate foreign-built vessels.

Question. This morning the committee will hear testimony from the Massachusetts Maritime Academy that an additional $5 million over and above the $5.8 million now available is necessary so that an adequate conversion job can be carried out on the training vessel which MARAD acquired for the Academy (SS *Santa Mercedes*) at a cost to MARAD of $4.2 million.

Do you agree that an additional $5 million is necessary?

Answer. The Maritime Administration is now initiating the work necessary to prepare the *Santa Mercedes* for operation as a training vessel. The work will be carried out in two separate steps, the first involving basic repair to make the ship operational and the second conversion to schoolship configuration. The actual cost of the whole job will remain a matter of uncertainty until bids are received on each of the tasks and we think it is unnecessary to add additional funds at this time. The repair contract was awarded competitively at $1.9 million in April. Bids are due on the conversion task in July. A final estimate will not be available until the conversion bids are in hand.

Question. On July 26, 1983, Senators Stevens, Long, and I wrote to you concerning MARAD's policy of advancing funds to Title XI vessel operators to help service their Title XI debt during periods of economic Depression.

Although MARAD is specifically authorized by law to do this (46 U.S.C. 117), it was our understanding that OMB had circumvented the statute, and made MARAD's exercise of that authority subject to OMB's approval on a case-by-case basis.

We said that if our understanding was correct, then what OMB was doing was similar to what it did when it put annual administrative limitations on Title XI loan guarantees. The 97th Congress reacted to this usurpation of MARAD's authority by enacting legislation which provided that such limitations could only be established in authorization bills.

Your reply to our letter did not directly address that question.

Does OMB require MARAD to seek its approval on a case-by-case basis before advancing funds to Title XI vessel operators to help service their Title XI debt during periods of economic depression?

Answer. No, OMB does not require MARAD to seek its approval on a case-by-case basis before MARAD advances funds to Title XI vessel operators to help service their Title XI debt.

Question. Admiral Shear, I note that the ODS amount sought for fiscal year 1985 is $347,599,000 for the operation of 124 liner vessels. This would average something over $2.8 million per ship per year. Your annual reports for earlier years during the 1980's indicate that net ODS accrual per liner vessel per year has averaged about $2.2 million. Could you provide a record with an explanation for this rather abrupt increase of $600,000 per ship per year on an average?

Answer. The increase from $2.2 million to $2.8 million in projected ODS budget authority per liner vessel from the early 1980's to fiscal year 1985 is largely attributable to two factors: currency exchange rates and foreign competition. The strengthening of the U.S. dollar vis-a-vis foreign currencies increases the differential between U.S. costs and foreign costs. The budgets projected for the early 1980's reflected a moderately strenghtening U.S. dollar. However, the full impact of the strengthened U.S. dollar is more clearly reflected in the most recent budgets, resulting in increased ODS requirements.

Generally, the foreign flag competition used to determine ODS has moved toward lower cost flags. This has been particularly evident during the 1980's, especially on the West Coast services where very low cost competitors such as Singapore and Taiwan have emerged.

Question. What with a recent bankruptcy by an ODS liner operator, vessel lay-ups and charters of liner vessels to the Military or otherwise out of ODS service, it occurs to me that some of the ODS needs calculated last winter might not actually be expended on the vessels and in the essential services during the fiscal year 1985.

My question, then, is: How do you view your discretionary authority to reallocate ODS amounts unused by specific carriers on specific routes to (1) the same carrier on other routes, (2) another carrier on the same or other routes? If you do perceive that you have that authority, either generally or in specific circumstances, please provide us with the bases for that view.

Answer. MARAD has the discretionary authority to reallocate ODS not expended to other ODS recipients, either to the same recipient on another service or to a different ODS recipient, irrespective of whether that operator serves the same trade route or not. This discretionary authority arises because the ODS appropriation is part of a single budget activity; and as such, no reprogramming requirements attach. There is a policy that there will be no new ODS contracts and no expansion of existing ODS contracts that would result in additions to the budget.

However, notwithstanding the above, the terms of the respective operating differential subsidy agreements (ODSA's) limit the amounts of ODS that can be paid. Liner ODSA's have maximum sailing requirements which cannot be enlarged without notice and, possibly, hearings. Moreover, generally subsidized service to additional areas cannot be undertaken without satisfying the same notice and hearing requirements. No additional ODS may be paid to bulk ODS operators since their vessels already receive ODS for operation and free engagement in worldwide foreign trade under current terms of the respective ODSA's.

Question. Are you satisfied that the vessels in our National Defense Reserve Fleet are reliable sealift assets in the event they are needed?

Answer. The National Defense Reserve Fleet encompasses the Ready Reserve Force of 33 ships maintained in readiness for a 5-10 day activation, plus 152 older vessels intended for activation over a period of 30-90 days. The 152 older vessels include 124 Victory ships built during the final years of World War II. Although these War-built vessels are maintained in relatively good condition under dehumidification, and have seen only about 8 years of a actual operation over their lives, they are obsolete in terms maintainability and ship productivity, i.e. speed and size. Clearly, we are concerned about their reliability and are watching them closely.

QUESTIONS OF SENATOR MITCHELL AND COHEN AND THE ANSWERS THERETO

Question. With the upcoming increase in required sea time for cadets (from six months to one year) as specified under the International Maritime Organization Standards for Training and Certification of Watchkeeping for Seafarers, what plans does MARAD have to assist the State Maritime Academies in meeting this federally-mandated requirement? Please be specific both in terms of programs and funds. MARAD's reluctance to assist the academies with their fuel needs, so that they can meet current training requirements, seem only to exacerbate this problem in our opinion.

Answer. The IMO STCW Convention which mandates the one-year at sea requirement for deck cadets has not been ratified by the United States. It appears doubtful that the United States will ever ratify the Convention. However, in keeping with the intent of the Convention, MARAD is assisting the States to increase the seatime requirement for the deck cadets. Through MARAD's excess/surplus property program, small caraft are being donated to the schools for their use in training. MARAD, in concert with the U.S. Coast Guard, is encouraging the use of equivalents as permitted by the Convention, such as simulators, in lieu of actual seatime in order to meet the convention's requirements.

Each school has been requested to develop a training package for its deck cadets to demonstrate that the school meets the intent of the Convention. One of the State academies has already submitted its training package to MARAD and received approval as meeting the intent of the Convention from the U.S. Coast Guard and MARAD. MARAD will continue to assist the other state schools in developing enhanced training packages which met the intent of the Convention. Alternatives to the expensive increase in the untilization of the large training ship are available. These alternatives are being stressed.

Question. Considering the age, outdated technology, material condition, and attendant rising repair costs of the State Maritime Academy training ships, has a near-term replacement program been developed? If so, please provide us with the details of that program and an estimation of the anticipated costs. If not, why not?

Answer. The acquisition of the *Santa Mercedes* for use by the Massachusetts Maritime Academy provides a training ship for each of the five "salt-water" state schools. A worldwide search was conducted by MARAD to find a suitable vessel to be used as a training ship. The *Santa Mercedes* was the only ship available that could be economically converted into a training ship.

MARAD feels that the current ships plus the acquisition of the *Santa Mercedes* will accommodate the training ship needs of the State schools for a considerable period.

Question. With the lack of sealift-trooplift capability in this country, has MARAD given any consideration to upgrading the State Academy training ships so that they could fill this gap as a part of our Ready Reserve Fleet? As the existing vessels are strategically placed around the country and are maintained continuously by cadet labor, it would appear that this arrangement would be a very cost-effective marriage between the federal and state governments concerned.

Answer. The Department of the Navy, in November 1982, completed a study addressing the feasibility of increasing the Navy's trooplift capabilities. The five schoolships were evaluated as to their potential use. It was determined that the schoolships located in California and Texas were too small to be economically converted for troopship use. The schoolships at Maine and New York were found to be of sufficient size to warrant consideration by the Navy.

The Maritime Administration has given, and will continue to give full cooperation to the Navy in these considerations. Any final determination and any provision for requisite funding are, however, matters for the Department of the Navy.

Question. Why is MARAD planning to reduce the State Academy Student Incentive Payments by 50 per cent over the next four years? Since these payments were designed to assure a viable Naval Reserve/Merchant Marine Reserve in the event of a national emergency, how will this large reduction affect this desired reserve component?

Answer. In 1982 MARAD estimated that there were 37 percent more deck officers and 21 percent more engine officers than needed to sustain an adequate deck and engine officer workforce for our current fleet of large oceangoing ships through at least 1986. Jobs afloat in any marine sector are scarce for recent Federal and State graduates. As of January 1, 1984, only 27 percent of last year's graduating classes have obtained any afloat employment, whether deep-sea, inland waterways, offshore oil or towing, and whether private sector or civil service. Seafaring employment for the last graduating classes is the lowest it has been since the early 1970's.

The current SIP quotas have been in existence since 1971. Since that time there has been a major decline in the number of U.S.-flag ships in operation and in the number of seafaring billets. For example, in 1971 there were 9,367 officer billets on U.S. oceangoing ships of 1,000 gross tons and over. As of December 1983, the number of officer billets was 5,502, a decrease of over 40 percent. We do not foresee any major upturn in job levels in the near future.

MARAD's action in reducing the available number of student incentive payments (SIP's) is intended to reduce a Federal incentive system which, in light of severely decreased job opportunities, can be viewed as misleading young men and women by attracting them to an industry in which employment opportunities are in serious decline. Many students attend the state maritime academies without the benefit of SIP's. Every eligible student at the State academies can, and is encouraged to, apply for a reserve commission.

Senator STEVENS. Thank you very much. Our next witness will be Admiral Rowden.

STATEMENT OF VICE ADM. WILLIAM H. ROWDEN, COMMANDER, MILITARY SEALIFT COMMAND, DEPARTMENT OF THE NAVY

Admiral ROWDEN. I have a short statement which I would like to present and a longer statement that I would like to ask be included in the record.

Senator STEVENS. Thank you very much. We will print all of the statements in full.

Admiral ROWDEN. It is nice to be here, Mr. Chairman. Our basic national strategy is in two parts: first, one of forward war deterrence, and should that fail and conflict result, warfighting as far forward as possible.

The Naval strategy that supports the national strategy calls for the Navy to conduct prompt and sustained operations at sea in support of national objectives. The peacetime Navy's preparedness for these operations equates directly to deterrence. Seapower is bedrock to the execution of our national strategy. Strategic sealift, which is inherent in seapower, plays a major role because sealift is required to transport over 90 percent of the equipment and supplies required to mount and sustain our warfighting capability.

The Navy has maintained a forward deterrent posture since World War II. Over the years, the general purpose forces of the Navy have been drawn down through ship requirements and a less than one for one replacement. Most recently, when the Navy's general purpose forces were being drawn down, the merchant marine forces available to the Navy for sealift in time of emergency were also waning because of a worldwide slump in the maritime industry.

Three Navy sealift programs were approved and are being implemented to meet deployment capability requirements and reduce reaction time in crisis situations. The near term pre-positioning ship, maritime pre-positioning ship and fast sealift ship programs provide for sealift shipping under the direct control of the Department of Defense for use in national emergencies.

While this shipping can provide for fast reaction, there is insufficient capacity to provide support for the full scope of forces necessary to respond to the complete spectrum of crises.

MarAd maintains for the Navy the ready reserve force, presently consisting of 33 merchant ships, but which will be expanded to at least 77 by 1988. These merchant ships, with the merchant ships plying trade under the U.S. flag, combine with the Navy programs I have mentioned to constitute the sealift deterrent posture of the United States to deploy forces when and where necessary in time of crisis or national emergency.

Turning to that part of our national strategy that requires warfighting offensively, forward and away from our shores—should deterrence fail—the Naval forces required to achieve a winning warfighting stance are the same as they are for deterrence—that is, the combattant U.S. Navy, the U.S. Navy sealift forces, and the U.S. merchant marine. In addition, under certain wartime scenarios we are planning support from the effective U.S. control led fleet and from allied shipping.

The Department of Defense has established that there is a marginal capability for this country to provide the sealift required to support forward deployment of U.S. forces in a crisis. This shows bluntly that the successful execution of our Nation's strategy rests squarely on the sealift capability provided by the U.S. merchant marine, balanced with that provided by sealift programs directly financed by the Department of Defense.

Clearly, one can conclude that the success of every aspect of our national strategy depends on a healthy, productive and militarily useful merchant marine. The merchant marine is dependent in part upon ship construction, but unfortunately, ships are being laid up and scrapped faster than they are being built, with the net result that for the first time in a decade, privately owned sealift

tonnage under the U.S. flag has declined, and the dismal economic outlook forecasts continued decline.

In recent years there have been a number of developments that have eroded the strength of the U.S. merchant marine, and consequently the sealift base available to support U.S. national strategy in a limited or general conventional war.

Clearly we are faced with a serious military problem in our dwindling merchant marine and commercial shipyard activity. The solution to the problem must be an integrated effort by both the Government and the industry. As noted, the Department of Defense, through the Navy, has instituted programs to provide sealift to ensure the credibility of our deterrence and to enhance our surge and sustainability posture in a fighting war.

Together, all the Navy sealift enhancement programs will pump more than $15 billion into the maritime economy over the next 5 years and will benefit owners, operators, builders and labor alike.

We have a viable military sealift program, and it is producing the military and defense results for which it was established. However, it does not provide for the economic shipping or national security required to sustain our economy in wartime. The military necessary for a healthy merchant marine is clear and unassailable. Measures taken by the military to meet their appropriate share of the responsibility for sealift are well known. Much more needs to be done jointly to revitalize the commercial aspects of our merchant marine to meet the balance of the military and economic requirements for sealift in time of national emergency.

A step in the right direction was taken last month when President Reagan signed the Shipping Act of 1984, the broadest revision of maritime regulation in decades. This legislation, which will allow U.S.-flag carriers to compete more effectively in international markets, was the result of a 7-year biparitsan effort in Congress and strong backing by the administration.

That concludes my statement, Mr. Chairman. I would be happy to take questions.

Senator STEVENS. Thank you very much. Do you have questions, Senator Gorton?

Senator GORTON. No questions.

Senator STEVENS. There are questions from Senator Inouye and myself that we would submit to you. Admiral, if you would respond to them, we would appreciate it very much.

Admiral ROWDEN. Yes, sir, I will.

[The statement follows:]

STATEMENT OF VICE ADM. WILLIAM H. ROWDEN, USN COMMANDER, MILITARY SEALIFT COMMAND

It is a pleasure to appear before the Merchant Marine Subcommittee of the Senate Committee on Commerce, Science and Transportation and share the Navy's views on the importance of the U.S. Merchant Marine to this nation's strategic mobility.

Our basic national strategy is one of war deterrence through a forward defense. For this strategy to be credible, our military preparedness posture must convince any potential aggressor that the success of military action against the U.S. on his part is sufficiently in doubt to make such action an unacceptable policy alternative. But should our national war deterrence strategy fail and conflict result—our national strategy calls for warfighting plans with offensive action forward and away from our shore. Thus, our basic national strategy is in two parts. First, one of forward

war deterrence and, should that fail and conflict result, warfighting as far forward as possible.

The naval strategy that supports the national strategy calls for the Navy to conduct prompt and sustained operations at sea in support of national objectives. In peacetime, the Navy's preparedness for prompt and sustained operations at sea equates directly to deterrence.

Seapower is bedrock to the execution of our national strategy. Strategic sealift, which is inherent in seapower, plays a major role because sealift is required to transport over 90 percent of the equipment and supplies required to mount and sustain our war fighting capability. Only sealift can provide the necessary mobility for either forward deterrence, or offensive projection in warfighting.

The Navy has maintained a forward deterrent posture since World War II. Over the years, Navy general purpose force levels have been drawn down through ship retirements and a less than one for one replacement program. At the same time, our world commitments remained the same or increased as in recent years when demands have increased with deployments required in the Indian Ocean and the Caribbean. The result was a general purpose Navy drawn thin through commitment. The President's naval building program to reach a 600 ship Navy is a first order of business to reestablish the Navy's deterrent and war fighting posture.

Most recently when the Navy's general purpose forces were being drawn down, the Merchant Marine Forces available to the Navy for sealift in time of emergency were also waning because of a world wide slump in the maritime industry. Since the credibility of our deterrence posture is directly linked to our ability to react to hostile threats in a timely manner, measures were necessary to ensure adequate sealift to support a credible deterrent. Three Navy sealift programs were approved and are being implemented to meet deployment capability requirements and reduce reaction time in crisis situations. The programs consequently will increase our deterrence credibility. They are: the Near Term Prepositioning Force, Fast Sealift Ships and the Maritime Prepositioning Ships.

The need for dedicated sealift in the Indian Ocean is particularly apparent. There are no mainland staging sites for Marine Corps, Air Force and Army units ashore in the Indian Ocean. Consequently, a credible deterrent posture has been a challenge for contingency planners. To speed and facilitate deployment for ground forces in Southwest Asia, equipment required for forces in that area has been prepositioned at sea in ships of the Near Term Prepositioning Force. The seventeen ships of this force provide the equipment and supplies for Army and Air Force units and a Marine Brigade planned for employment in the area in case of national necessity. While the material remains forward and at sea, ready to join the personnel it supports, these personnel remain in the United States or rear areas. They will deploy by airlift.

The thirteen Maritime Prepositioning Ships now under conversion or construction will operate on the same theory as the Near Term Prepositioning Force—that of providing forward deployed equipment for deployable troops that will be airlifted to the employment area and then married to their equipment. Starting this year, the Maritime Prepositioning ships will be loaded and deployed at points around the world where our national interests indicate their presence is needed. The thirteen Maritime Prepositioning ships will support three Marine Amphibious Brigades.

The eight Fast Sealift Ships are to ensure rapid deployment capability for equipment lift, but they will remain in the United States near the equipment they will lift. They will be maintained in a reduced operating status to be activated and placed on berth in 96 hours. Within an additional day's time they can be ready to sail with a Division's worth of equipment. Because these are high-speed ships, they can close Europe in about five days—allowing airlifted troops to join their equipment—in Europe—in a week's time, or to Southwest Asia in two weeks.

The Navy's Military Sealift Command regularly operates over one hundred ships which directly support national forces deployed throughout the world. This fleet consists of government owned and chartered ships crewed by civilian mariners and provides peacetime sealift support to regularly deployed forces in peacetime which cannot be met by scheduled U.S. flag service.

The Near Term Prepositioning Ship, Maritime Prepositioning Ship and the Fast Sealift Ships programs provide for sealift shipping under the direct control of the Department of Defense for use in national emergencies. While this shipping can provide for fast reaction, there is insufficient capacity to provide support for the full scope of forces necessary to respond to the complete spectrum of crises. MarAd maintains for the Navy the ready reserve force presently consisting of 32 merchant ships, but which will be expanded to at least 77 by 1988. These ships are maintained in a reduced operating status, but capable of being brought to full operating status

in either five or ten days. These merchant ships, together with the merchant ships plying trade under the U.S. flag, combine with the Navy programs I have mentioned to constitute the sealift deterrent posture of the United States to deploy forces where and when necessary in time of crises and national emergency. All of these measures, together with the establishment of the 600 ship Navy permit the Navy to assume a peacetime deterrent readiness posture for prompt and sustained operations at sea in support of national objectives. However, the credibility of deterrence must be constantly tested and evaluated for veracity and corrected where deficiencies are found.

Turning to that part of our national strategy that requires warfighting offensively, forward and away from our shores—should our war deterrence posture fail—the naval forces required to achieve this war fighting stance are the same as they are for deterrence: The combatant U.S. Navy, U.S. Navy Sealift Forces and the U.S. Merchant Marine. In addition, under certain wartime scenarios we are planning support from the effective U.S. controlled fleet and Allied shipping.

In time of war, the Navy is required to conduct prompt and sustained operations at sea employing strategic ballistic missile submarines, as well as general purpose and Merchant Marine forces. These forces provide the sea control, power projection and sealift needed to influence the land battle in reaching a conclusion favorable to our national interest. It is important to understand that the favorable conclusion to any armed conflict will most likely be established by the outcome of the land battle, and that the sea and air battles are fought to directly influence that outcome.

I have indicated that our forces in place can provide the initial surge capability should hostilities occur. The requirement to sustain these forces, provide for their relief and reinforcement and provide for support to our allies becomes the greatest challenge to the military planner in planning for warfighting.

Sealift requirements for a single theater war and a world wide war vary greatly. So the question of how much is enough is a very difficult one, but surely the answer limits the extent of our involvement in an armed confrontation, and the U.S. Merchant Marine is at the heart of the total answer.

The Department of Defense has established that there is a marginal capability for this country to provide the sealift required to support the forward deployment of U.S. Forces in a crisis. This shows bluntly that successful execution of our nation's strategy rests squarely on the sealift capability provided by the U.S. Merchant Marine balanced with that provided by sealift programs directly financed by the Department of Defense. Clearly, the latter programs, particularly the expansion of the Ready Reserve Force from 32 to at least 77 ships are forced by shortfalls in the U.S. Merchant Marine. This shortfall is further sharpened when one considers that the DOD examination of contingency plan sealift did not make allowance for shipping required to sustain our country's economy in wartime. One can clearly conclude that the success of every aspect of our national strategy depends on a healthy, productive and militarily useful Merchant Marine.

The Merchant Marine is dependent in part upon ship construction, but unfortunately, merchant ship construction trends are toward fewer—but larger—specialized ships, particularly containerships, of limited military application. The number of ships in the U.S. Merchant Marine is projected to decline substantially over the next five years, but the present capacity may be maintained. The Navy is acquiring flatracks and sea sheds to facilitate the use of container ships, but this trend toward such ships is causing the U.S. flag fleet rapidly to lose the very kinds of ships the U.S. military prefers—roll-on, roll-off ships, breakbulk ships, barge carrying ships and handysized tankers. Ships are being laid-up and scrapped faster than they are being built, with the net result that for the first time in a decade, privately owned sealift tonnage under the U.S. flag has declined.

The decline in merchant ship construction in the U.S. will continue because of the dismal economic outlook in shipping at this time and the lower construction cost and faster delivery time in foreign yards. Navy combatants and support ships being built for MSC are basically the only new ship construction in U.S. shipyards. This, of course, does not bode well for the shipyard and supporting industrial component of our Defense Mobilization Industrial Base.

In recent years there have been a number of developments that have eroded the strength of the U.S. Merchant Marine and consequently the sealift base available to support U.S. National Strategy in a limited or general conventional war. Specifically, our Merchant Marine has been eroded by:

A worldwide slump in shipping activity that has been characterized as the worst depression in the industry in 50 years. This slump has affected all maritime nations of the world.

Continued penetration by Soviet Bloc shipping companies on routes previously serviced exclusively by the free world.

Clearly we are faced with a serious military problem in our dwindling Merchant Marine and commercial shipyard activity. The solution to the problem must be an integrated effort by both the government and the industry. As noted, the Department of Defense through the Navy has instituted programs to provide sealift, to ensure the credibility of our deterrence, and to enhance our surge and sustainability posture in a fighting war.

Those programs are:

Eighteen Near Term Prepositioning ships, thirteen of which will continue operation with the introduction of the Maritime Prepositioning Ships.

Eight Fast Sealift Ships (SL-7s).

Thirteen Maritime Prepositioning Ships.

Increase in the Ready Reserve Force from 32 ships now to 77 ships by 1988.

Two hospital ships which will be delivered by September 1986 and in June 1987.

Eleven crane ships to be operational in fiscal year 1988.

Two aviation supply and support ships to be operational in fiscal year 1986.

Five T-5 tankers to replace the aging T-5 fleet which delivers in 1985 and 1986.

Fifteen planned TAO 187 class of fleet oilers, with the first four already under contract.

Sealift enhancements to the Merchant Ships that make them more militarily useful in forward deploying and supporting forces.

Acquisition of militarily useful ships that are no longer commercially viable ($31 million is included in each of the fiscal year 1984 and fiscal year 1985 budgets for this purpose).

Together, all the Navy sealift enhancement programs will pump more than $15 billion into the maritime economy over the next five years, and will benefit owners, operators, builders and labor alike. Many of the nation's 150,000 plus shipyard workers are employed on these programs as well as a substantial proportion of the seagoing labor force. Specifically, the MSC currently provides more than 9,000 seagoing jobs and 3,000 more jobs will be provided by the on-coming programs mentioned.

We have a viable military sealift program and it is producing the military and defense results for which it was established. But, it does not provide for the economic shipping or national security required to sustain our economy in wartime.

An important step for improving our nation's commercial shipping was taken last month when President Reagan signed the Shipping Act of 1984, the broadest revision of maritime regulation in decades. This legislation, which will allow U.S.-flag carriers to compete more effectively in international markets, was the result of a 7-year bipartisan effort in Congress and strong backing by the Administration.

The military necessity for a healthy Merchant Marine is clear and unassailable. Measures taken by the military to meet their appropriate share of the responsibility for sealift are well known. Much more needs to be done jointly to revitalize the commercial aspects of our merchant fleet to meet the balance of the military and economic requirements for sealift in time of national emergency. We owe it to our national survival.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR STEVENS AND THE ANSWERS THERETO

SEALIFT

Question. Does the present U.S. flag merchant fleet provide adequate sealift capacity to meet foreseeable needs in a national emergency?

Answer. If the U.S. flag Merchant Marine maintains its present capacity and if the Department of Defense program for sealift enhancement and maritime prepositioning become reality, the U.S. will have a "marginally inadequate" capability to meet sealift needs in the future; i.e., fiscal year 1988. In a word, the most positive outlook for sealift for the future is marginal capability.

Question. What kind of militarily useful vessels are most lacking in our merchant fleet?

Answer. Roll-on/roll-off ships are most lacking, from a military standpoint, in the U.S. Merchant Marine today. In time of war or contingency operations, roll-on/roll-off ships are of particular value early on in a conflict for moving large amounts of military vehicles and equipment quickly and efficiently. The U.S. flag fleet contains

22 full or partial roll-on/roll-off ships operating in the U.S., of which eight presently are in the MSC Fleet.

The U.S. flag fleet presently contains 200 dry cargo ships and 142 tankers which are militarily useful. The trend, however, is toward fewer, but larger, specialized ships, such as super tankers and non-self sustaining container ships, which are of limited military value.

Question. Ships are useless without seamen to man them. Is there an adequate pool of trained, experienced personnel to meet national emergency needs?

Answer. For now, there is no shortage of trained, experienced personnel to man U.S. ships in time of national emergency. State and national maritime institutions and union training schools are capable of maintaining a nucleus of trained mariners to meet peacetime needs and of expanding to train additional personnel in time of emergency. However, as the size of the U.S. Merchant Marine diminishes, there is a concomitant reduction in the size of the manpower pool available for wartime ship manning.

Question. The Falkland Islands conflict has shown once again that there is a tendency to underestimate the amount of sealift support necessary for support of military operations. Is current planning adequate in that regard?

Answer. Using the DoD Sealift Study to establish planning objectives, we have bench marked the requisite levels of sealift to support military operations. There are deficiencies, such as surge shipping for unit equipment, and we are addressing these. I believe our planning is balanced and proper.

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. In a non-NATO scenario of only moderate proportions, does the United States have any alternative but to rely on the privately owned U.S. flag merchant fleet for sealift?

Answer. Essentially no. We do have agreements with certain allies for use of portions of their shipping, but these apply to situations in which those countries are being defended. Other than that, we plan on the use of 73 ships in the Effective U.S. Controlled (EUSC) Fleet.

Question. In the event (of) a military call-up of U.S. flag assets, there would be few, if any, American vessels to carry essential imports and exports. How serious would a reduction in the import levels of strategic and critical materials be for the U.S. defense industrial base?

Answer. This is not a question which properly can be addressed by Military Sealift Command. I refer you to the Maritime Administration and the Federal Emergency Management Agency for their comments.

Question. Considering all the standards by which we can measure U.S. Military capability against Soviet capability, in your judgment, is there any disparity greater than that between the military capability of our respective merchant fleets?

Answer. Certainly the disparity between the military capabilities of the Soviet and the U.S. merchant fleets is great. The Soviet merchant marine is thoroughly integrated into the Soviet military system. Officers serving on Soviet merchant marine ships also are trained as officers in the Soviet Navy. Merchant marine ships are built and equipped to be militarily useful first and commercially viable second. Equipment for use in case of chemical and biological warfare is supplied routinely. Riverboats and offshore ships are equipped to act as minesweepers if necessary.

This is not fully the case with the U.S. merchant fleet. U.S. merchant ships are built to commercial standards. However, provisions have been made through which the Navy and the Maritime Administration can require ship owners requesting operating differential subsidies from the Maritime Administration to install National Defense Features in their ships worth up to two percent of the value of those ships.

It should be noted that the disparity in capability is not necessarily a useful measure, since national strategies differ.

Planning objectives have been established, based on the DoD Sealift Study, for the required levels of sealift to support military operations. Deficiencies exist, and we are addressing these.

Questions. Among the procurement items included in the budget for DoD are tracked combat vehicles, support vehicles, munitions, communications equipment, weapons, spare parts, accessories, etc. Does the U.S. now and for other forseeable future have the sealift capability to move these tons of men and equipment wherever the situation would require?

Answer. We have a marginal capability to meet these lift requirements, and the DoD Sealift Study states that within the 1988 time frame, the U.S. flag fleet will be

"marginally inadequate" to meet sealift needs. While the DoD now includes significant funding for sealift enhancement, U.S. flag ships are being scrapped and replaced by ships of limited military use so that by 1989, if the Maritime Administration's projection is accurate, the lift shortfall will be even greater.

Question. Many have expressed concern that there is a critical shortage of militarily useful product tankers for national security sealift requirements. Is this concern justified; and, if so, how many more product tankers do we need in the net five years? I believe the last figure I saw was that we have about 143 militarily useful petroleum tankers in the U.S. flag merchant marine.

Answer. As of May 1, 1983, there were a total of 134 tankers having a capacity of between 6,000 and 50,000 DWT for a total capacity of 4,434,459 DWT and 46 tankers between 50,000 and 100,000 DWT for a total capacity of 3,428,292, DWT. As of May 1, 1984, there are 122 tankers between 6,000 and 50,000 DWT for a total capacity of 4,106,028 DWT and 45 tankers between 50,000 and 100,000 DWT for a total capacity of 3,325,016 DWT. Consequently, between 1983 and 1984 we have observed a downward trend in numbers of all tankers with a corresponding downward trend in their total tonnage. This downward trend may continue until at least 1986 when the Port and Tankers Safety Act and market economics are projected to reach maximum impact.

The OSD (PA&E) Sealift Study is reviewing the requirements for tankers in the 1988 time frame. The results of this review should be available in June 1984. While the requirement may exceed the U.S. flag capability, it may not exceed the combined U.S., Effective U.S. controlled Fleet and NATO capability.

Senator STEVENS. Our next witness is Admiral Holloway.

STATEMENT OF ADM. JAMES L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS, ACCOMPANIED BY AL MAY, EXECUTIVE VICE PRESIDENT AND COUNSEL

Admiral HOLLOWAY. Mr. Chairman, I have a statement that I would like to submit for the record and if I may, present a very brief, one-page oral statement.

Senator STEVENS. Thank you very much, Admiral. It is nice to see you again. Please proceed.

Admiral HOLLOWAY. It is nice to be with you here, sir.

I am the president of the Council of American-Flag Ship Operators, [CASO], and I am accompanied by Mr. Al May, executive vice president and counsel of CASO.

CASO represents the majority of U.S.-flag liner companies serving the foreign commerce of the United States. Our member companies own and operate a modern and diversified fleet of breakfulk, barge-carrying, container and roll-on/roll-off vessels. All of these ships are available under various programs for use by the United States during times of military emergency.

CASO has concluded that the administration request for appropriations for operating differential subsidies, research and development and operations and training appear to be sufficient to meet contractual and other obligations.

In 1984 several issues of significant importance to liner operators will be debated, but there is one single issue upon which it can be honestly said hangs the fate of the future of our industry. That issue is the modernization of the liner fleet, the ability of U.S. operators to replace their aging and inefficient ships. The favorable resolution of that issue was the cornerstone of the administration's promotional program when it was introduced last year.

The administration has again requested no funds for construction subsidy, and the Congress has failed to enact legislation authorizing liner operators in the absence of shipyard subsidy funds to acquire vessels abroad for ODS operation.

As the debate goes on and the issue remains unresolved, the liner companies have been held as hostages. The impasse must be solved if a U.S.-flag merchant marine, as we know it today, is to survive into the future. Without an orderly program of fleet modernization in which older, steam-driven, breakbulk, labor-intensive ships are replaced with new economical diesel-powered, highly mechanized cargo ships with substantially reduced crews, U.S. operators will simply not be able to maintain a modern U.S.-flag commercial fleet that is capable of competing with their foreign flag counterparts.

Liner vessels today cost approximately three times as much to build in the United States as to build abroad. Construction takes two to three times longer in the United States. Our shipyards and suppliers do not, unfortunately, offer the same level of engineering and equipment technology, principally in propulsion plants, for the construction of liner vessels, as can be found abroad. It is simply not possible to acquire vessels and operate them competitively without reasonable parity in each of these three areas.

Unfortunately, this is an issue where simple solutions have become complex. Sorting them out will require a firm commitment on the part of the various elements of the maritime industry, the administration, and the Congress.

Mr. Chairman, in closing, let me note that on March 20, 1984, S. 47 became the Shipping Act of 1984 at a Presidential signing ceremony in the White House. This legislation was the culmination of 7 years of effort by the Congress and the industry. Its enactment will not only provide the regulatory reform so much needed in our ocean shipping, but has already begun to restore morale and confidence in our industry.

This act could well signal the upturn in the fortunes of the U.S.-flag merchant marine. And on behalf of the members of CASO, I would like to take this opportunity to express our appreciation to the committee for this landmark legislation.

Thank you, Mr. Chairman. We are prepared to answer any questions that you may put to us.

Senator STEVENS. Thank you very much. This is one of the items that Senator Gorton worked on so hard in the last Congress as well as this. Senator Gorton, do you have any questions?

Senator GORTON. No questions.

Senator STEVENS. I appreciate your courtesy, Admiral. Senator Inouye would like to present some written questions. I would appreciate it if you could respond to those for the record.

Admiral HOLLOWAY. We will, Mr. Chairman.

Senator STEVENS. Thank you for your courtesy.

Admiral HOLLOWAY. Thank you, sir.

[The statement follows:]

STATEMENT OF ADM. J. L. HOLLOWAY III, U.S.N. (RET.) PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Mr. Chairman and members of the committee I am Admiral James L. Holloway III, President of the Council of American-Flag Ship Operators (CASO).

CASO represents the majority of U.S./flag liner companies serving the foreign commerce of the United States. Our member companies own and operate a modern and diversifed fleet of breakbulk, barge-carrying, container, and roll on/roll off ves-

sels. All of these ships are available under various programs for use by the United States during time of military emergency.

We appreciate the opportunity to appear here today to present our views on the Maritime Administration Appropriations Authority request for fiscal year 1985.

We have reviewed the requests for authorizations for Operating-Differential Subsidies, Research and Development and Operations and Training. In the context of known requirements, these requests appear to be sufficient to meet contractual and other obligations.

1. CONSTRUCTION DIFFERENTIAL SUBSIDIES

As anticipated, the Administration has carried through its announced intention of requesting no funds for ship construction subsidies ("Since the Administration continues to support the policy that U.S. flag ship operators be permitted to build or acquire vessels abroad, no construction subsidies are being proposed."). A remaining unobligated balance in that account of $7 million has been transferred to MarAd Research and Development program. While 1984 will see several issues of significant importance to liner operators debated, there is one single issue whose resolution will absolutely determine the future of our industry. That issue is the ability of U.S. liner operators to replace aging and inefficient elements of their fleets. Favorable resolution of that issue was the cornerstone of the Administration's Promotional Policy as introduced last year. Unfortunately, in the ensuing debate the liner companies have been held as hostages. Without an orderly program of fleet modernization, in which older steam driven, breakbulk, labor intensive ships are replaced with new, economical diesel powered, highly mechanized cargo ships with substantially reduced crew sizes, U.S. operators will simply not be able to maintain a modern, competitive U.S. flag fleet. This dilemma was well stated in the January 23, 1984 issue of Business Week which, noting the recent trend of divesture by conglomerates of their shipping company subsidiaries, stated that:

". . . There could hardly be a worse time to be set adrift. Cyclical world trade and cheap foreign competition have long buffeted the industry.

They are also losing support from the Federal Government. Washington abruptly ended aid to ailing U.S. shipyards in 1980 . . ."

The liner operators who, in good faith, relied upon our government's continued commitment to support long-standing programs (to foster the development and encourage the maintenance of a citizen-owned, citizen-manned and domestically constructed merchant marine sufficient to carry a substantial portion of the waterborne foreign commerce of the United States and capable of serving as a naval and military auxiliary in time of war or national emergency [1] now, through no fault of their own, find themselves in an impossible situation. To exist as attractive investments in the marketplace these liner companies must demonstrate an ability to be competitive in the international arena. To be competitive the companies must be able to renew, when commerically desirable, aging segments of their fleets. They must demonstrate to the capital markets their ability to acquire such vessels on a cost basis which will permit them to be competitive. This they cannot do under present circumstances.

Liner vessels today cost approximately three times as much to build in the United States as to build abroad. Construction takes two to three times longer in the United States. Our shipyards and suppliers do not, unfortunately, offer the same level of engineering and equipment technology—principally propulsion—for the construction of liner vessels as can be found abroad. It is simply not possible to acquire vessels and operate them competitively without reasonable parity in each of these three areas. Unfortunately, this is an issue where simple solutions, for political reasons, have become incredibly complex. Sorting them out will require a firm commitment on the part of the various segments of the maritime industry, the Administration and the Congress. We pledge that commitment.

2. OPERATING-DIFFERENTIAL SUBSIDIES

The Administration's budget ". . . includes funding for operating subsidies to meet the government's obligations on existing contracts; no new contracts are anticipated."

Our national policy has long recognized that the national defense role of U.S.-flag ships and citizens seamen requires that the higher cost of employing U.S. seamen should be borne by the Nation as a whole through a seamen's wage differential.

[1] From the Declaration of Policy, Merchant Marine Act, 1936.

This parity system of roughly equalizing costs of employing U.S. seamen rather than low-cost foreign labor was adopted in 1936 after a number of other subsidy systems had failed. During the past 40 years, dozens of Congressional and Executive Branch studies have concluded that the ODS parity system is the cheapest and the most effective way of equalizing wage costs so that U.S. carriers can compete while employing citizen seamen. As the Committee can see from Exhibit I attached to this statement, which shows net ODS payments in current and constant dollars for a 32 year period, anticipated costs in constant dollars for 1985 are the lowest in history. Further, they are less than half of the constant dollar cost for 1964. While it is true that the number of subsidized liner ships has declined during this 32 year period it is also true that because of increased vessel size and efficiency, particularly in turnaround time, the annual ton-mile capacity of the fleet has increased.

While some have criticized this labor cost parity program, the only validity to any of the arguments we can find is that it may impose unnecessary constraints on operating flexibility that were not anticipated many years ago. For example, the essential trade route system could probably be modified, without creating inequitable advantage or hardship, to permit operators to better utilize their vessels and intermodal systems.

The Maritime Administration has sought comment from vessel operators on proposed guidelines for the early termination of existing ODS contracts. We believe some of those proposals have merit and will work to develop them with MarAd.

OPERATING-DIFFERENTIAL SUBSIDY NET ACCRUALS—LINER OPERATORS ONLY

[Current and constant dollars in millions]

	Current	Deflator [1]	Constant
Calendar year:			
1954	$106.3	89.6	$118.6
1955	104.1	90.9	114.5
1956	102.7	94.0	109.3
1957	122.8	97.5	125.9
1958	140.7	100.0	140.7
1959	158.8	101.6	156.3
1960	162.7	103.3	157.5
1961	168.8	104.6	161.4
1962	174.8	105.8	165.2
1963	190.5	107.2	177.7
1964	219.7	108.8	201.9
1965	182.9	110.9	164.9
1966	199.5	113.9	175.1
1967	215.4	117.6	183.2
1968	219.1	122.3	179.1
1969	227.4	128.2	177.3
1970	234.8	135.2	173.6
1971	200.0	141.4	141.4
1972	197.9	146.1	135.4
1973	207.5	154.6	134.2
1974	215.6	169.5	127.2
1975	224.5	185.8	120.8
Fiscal year:			
1976	[2] 226.2	[3] 197.4	114.6
1977	[2] 262.6	[3] 208.7	125.8
1978	[2] 261.2	[3] 223.4	116.9
1979	[2] 258.2	[3] 241.9	106.7
1980	[2] 277.7	[3] 264.0	105.2
1981	[2] 315.7	[3] 288.9	109.3
1982	[4] 365.3	[3] 308.8	118.3
1983	[2] 355.6	[3] 323.2	110.0
1984	[2] 372.5	[3] 336.8	110.6
1985 est	[2] 334.7	[3] 352.0	95.1

[1] Implicit price deflator (1958=100), U.S. Department of Commerce, Survey of Current Business, October 1974, November 1978.
[2] Budget authority for liner operators.
[3] Deflator for fiscal years 1978 to 1985 are based on history and forecast from "Review of the U.S. Economy," Data Resources, Inc., January 1984.

Sources: 1954-1960—MarAd Annual Report, 1973; 1961-1974—MarAd Annual Report, 1985; and 1975-1985—MarAd.

[The following information was subsequently received for the record:]

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS,
Washington, D.C., April 20, 1984.

Hon. DANIEL K. INOUYE,
722 Hart Senate Office Building,
Washington, D.C.

DEAR SENATOR INOUYE, at the conclusion of my testimony, April 5, on S. 2499, you asked me to respond in writing to a proposal for a dialog aimed at resolving the present impasse on a new Merchant Marine Policy.

You are absolutely correct that at some point all segments of the industry and the government will have to get together and engage in the give and take necessary to arrive at a broad based consensus. Prospects for success in such a session would be greatly enhanced if at the start the participants had a general idea of where they would come out. Proposed solutions, such as the example in your question, affect steamship operators very differently, depending upon the age of their fleets, the geographic areas in which they operate and the nature of their service. Similar problems confront shipyards and maritime labor organizations.

We in CASO are working diligently to define a broadly acceptable solution, but frankly it is not yet in hand. When we have identified the general outline of such a solution, we will discuss it with you and other interested in this problem to get your reaction. If most parties agree that the proposals might be workable, then it would be timely to hold the broad based meeting which you have suggested.

We deeply appreciate your interest in developing solution to our industry's problems and look forward to working closely with you on it.

Sincerely,

J. L. HOLLOWAY,
President.

Senator STEVENS. Our next witness is Mr. Lee Rice, who is the president of the Shipbuilders Council of America. I have just been called to the floor. Senator Gorton will chair and then Senator Trible is on his way.

We certainly appreciate your being here, Lee, and I enjoyed the discussion we had recently.

Senator GORTON [presiding]. Please proceed.

STATEMENT OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. RICE. We have submitted a statement for the record and request that this oral summary be part of the record in addition.

Senator GORTON. Both will be included in the record.

Mr. RICE. The administration requests that the committee authorize, under S. 2499, funds to support the Maritime Administration for fiscal year 1985, and the continuation of its management of the Maritime Administration under the faulty and muddled policies of the last 3 years.

Present policy presumes the laissez-faire precepts which ignore the realities of international shipping and shipbuilding markets will provide the shipping and shipbuilding assets required to meet the demands of national security. Senior management of the administration reject the argument that a problem exists. Consequently, the magnitude and meaning of the problem remains submerged within the governmental bureaucracy.

If the President expects that defense guidance is to be executable, the problem of sealift and shipbuilding must be addressed. The claim that the Naval shipbuilding program sustains a required shipyard mobilization base is demonstrably incorrect and we have shown so in our statement.

This committee must determine whether or not the requested fiscal year 1985 spending authority of the Maritime Administration should be approved without directing that a balanced and realistic maritime program be developed as a condition for its approval. A maritime program consistent with the mandate or responsibility under existing maritime law is required.

The DOT should not be allowed to avoid accountability for failing to provide adequate sealift and shipyard capability.

We have proposed several measures to stimulate modest shipbuilding opportunity, near-term solutions. These include extension of the Jones Act to the entire 200-mile economic zone, allowing the use of CCF funds for any investment in vessels which operate in the offshore Jones Act trades, that 15 percent of CCF funds expended be excluded from the taxable income of shipyards if reinvested in facilities, that $450 million in funding be provided to initiate a title VII program for the purpose of building militarily useful car-carrier vessels to be made available at world competitive costs for use in the transport of automobiles and trucks from Japan, and that S. 2161, a bill to establish a commission to give advice on maritime policy be enacted to force examination of sealift and shipbuilding issues in detail.

At a minimum, and as something that is practical for this committee to do, we strongly suggest that the committee add funding to the 1985 maritime authorization in the amount of $75 million to be used to purchase vessels for the Ready Reserve Fleet from owners prepared to immediately commit to contract to build new vessels in the United States.

Thank you.

Senator GORTON. Thank you very much. I know that Senator Inouye has questions that he will submit in writing.

Senator Trible.

Senator TRIBLE. I have no questions, Mr. Chairman. I am always pleased to see Mr. Rice. I welcome you here today.

Mr. RICE. Thank you, Senator.

[The statement follows:]

STATEMENT OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

I am M. Lee Rice, President of the Shipbuilders Council of America. The Shipbuilders Council of America is a trade organization representing principal shipbuilders and shiprepairers and the suppliers of equipment, materials and services to these industries. A listing of the membership of the Council is attached. I request that our full testimony as well as my summary be included in the record of this Hearing.

The Administration requests that this Committee authorize the continuation of its management of the Maritime Administration under the faulty and muddled policies of the past three years. These muddled policies according to an article in the April 1984 edition of American Shipper magazine produced a stunning collective loss of nearly $30 million sustained by seven subsidized U.S. flag operators for the first ten months of 1983. These losses are after, not before, the payment by the Maritime Administration of $204 million in accrued operating-differential subsidy. In the area of commercial shipbuilding, the stewardship of the Adminitration is even more dismal, not a single commercial vessel is being built in a U.S. shipyard for our foreign trade. Shipbuilders are asked, nevertheless, to believe that markets for vessels will exist if they will only "sharpen costs." Shipbuilders and shipowners are neither able to do this nor are they naive and gullible enough to believe that this constitutes a solution to national problem.

Present policy presumes that laissez faire precepts which ignore the realities of international shipping and shipbuilding markets will, by some unknown magic, pro-

vide the shipping and shipbuilding assets required to meet the demands of national security. That this policy is faulty has been demonstrated repeatedly, yet the Administration blindly continues its course unabated. We are not told that the Shipping Act of 1984 will solve the problem. It will not. We are told that this Administration has done more than others to provide a market for shipbuilders by rebuilding the Navy and that this support is sufficient to sustain the shipyard mobilization base. It is not.

Senior management of the Executive Office, the Department of Transportation and the Maritime Administration reject the position that a problem exists which must be addressed and solved. They provide self comfort in this denial by the glib statement that there cannot be a significant problem to be solved because if such a problem existed the Department of Defense would have so stated. The realities of the Department of Defense budgeting process and the departmental budgets and priorities within the DOD budget act to suppress problems which may require the provision of funds. Consequently, the magnitude and meaning of the problem of providing sealift and shipbuilding support which has heretofore not been a problem which required attention by the military is allowed, or even encouraged, to remain submerged within the governmental bureaucracy. The true loser in this game of "pass the budget responsibility" is the nation and its security.

Under present circumstances, it is clear that the Administration will not develop the defense-coordinated maritime plan which was promised by President Reagan during the 1980 campaign. Indeed, the President on the occasion of the signing of the Shipping Act of 1984 said that the Administration was "doing all we can" for shipbuilding through naval construction. We are not inclined to believe that a problem of such great importance to the nation's security can be dismissed in such cavalier manner. Further, if the President is sincere in expecting that the directions contained in his Defense Guidance are to be executable, he must require that the problems of sealift and shipbuilding be addressed.

To illustrate the lack of coordination in maritime policy which exists, and to show that the President's statement that the government is "doing all we can" is incorrect, we cite the current plan by the Army to procure ocean going vessels. These vessels will be used to shuttle cargo to a landing site from Navy sealift vessels which transport the cargo to the area of combat. The vessels are substantial in size, over 300 feet in length, have Ro-Ro discharge capability and a cargo capacity of 2000 tons. The budgeted cost is approximately $20 million per vessel based on domestic procurement as was planned in the 1984 appropriation. The first procurement is for four vessels of which one is funded. Changing course from earlier plans under which the procurement was to have been from domestic sources, the Army issued a bid solicitation which included foreign sourcing. If the Shipbuilders Council had not surfaced this change, it would have gone forward without Executive review. The negative effect which foreign procurement would have on maintaining the shipyard mobilization base, at a critical time, was completely ignored. At present, the Army has withdrawn the solicitation. Hopefully, a rational decision to support the shipyard base will be made.

We ask, is "doing all we can" an accurate statement? We ask, where is the coordination of maritime policy promised?

The Administration contends that the naval shipbuilding program provides adequate support to sustain the required shipyard mobilization base. Clearly, they have not read and understood the findings made by the Navy and MarAd that the naval building program alone is insufficient to sustain the required shipyard base. Attached to this testimony, as Appendix A, is an analysis which shows that the Administration's claim that the naval building program adequately maintains the shipyard mobilization base is incorrect.

This Committee must determine whether or not the requested spending authority for the Martime Administration for 1985 should be approved without directing that a balanced and realistic maritime program be developed as a condition for approval. We believe that it should not. Clearly, a maritime program which is consistent with the mandate of responsibility fixed under existing maritime law is required. In our judgment, the DOT should not be allowed to avoid accountability for failing to provide adquate sealift and shipyard capability.

As we have stated repeatedly, the maritime industry cannot solve the problem alone. Indeed, for the Administration to assume that this will happen and fail to provide adequate sealift and shipbuilding resources is gross dereliction.

We continue to argue for a long term solution of the problem. Knowing, however, that a long term solution cannot be developed immediately, we have proposed several measures which will, hopefully, stimulate modest shipbuilding opportunities. These include: (1) extension of the Jones Act to the entire 200 mile economic zone,

(2) allowing use of CCF funds for any investment in vessels which operate in the offshore Jones Act trades, (3) that 15 percent of CCF funds expended be excluded from the taxable income of shipyards if reinvested in facilities, (4) that $450,000,000 in funding be provided to initiate a Title VII program for the purpose of building militarily useful car carrier vessels to be made available at world competitive costs for use in the transport of automobiles and trucks from Japan and (5) that S. 2161, a bill to create a Commission to give advice for maritime policy, be enacted to force examination of sealift and shipbuilding issues in detail.

In addition, we propose that funds be provided to purchase additional vessels from U.S. flag operators for the Ready Reserve Fleet if the proceeds are immediately committed for the purchase of vessels in domestic shipyards. An extensive program currently exists which will increase the Ready Reserve Fleet by about 40 vessels in the period to 1988. Our proposal will accelerate achievement of this requirement and allow further expansion of the Ready Reserve which, we believe, will inevitably be required to meet future sealift demands. At the same time the proposal will provide assurance that planned new vessel construction is initiated.

We suggest that this Committee take the constructive step of adding funding to the 1985 Marad authorization in the amount of $75 million to be used to purchase vessels for the Ready Reserve from owners prepared to immediately contract to build new vessels in the United States.

In conclusion, we submit that delay in the development of effective maritime policy will simply raise the ultimate cost for providing sealift and shipbuilding assets and in the interim place the nation's security at an unacceptable level of risk.

APPENDIX A

An analysis of work provided to the Shipyard Mobilization Base by naval shipbuilding, repair and overhaul

This Committee has heard testimony over the past nine months dealing with various aspects of the Shipyard Mobilization Base Study (SYMBA). The objective of SYMBA, which was a joint undertaking of the Navy and MarAd, was the determination of the size and characteristics of the shipyard base which must be maintained to meet the demands of national security. The study dealt with two primary measures of capability: (1) the number of usable facilities which must remain available and (2) the number of production workers required to be actively employed at the beginning of a national mobilization. The study concluded that the facilities available in October 1982 in 110 private shipyards and 9 public yards met the first requirement and that 112,000 production workers must be employed in the private yards to carryout mobilization tasks; i.e., breakout of reserve fleets, preparation of commercial vessels to perform naval auxiliary missions and battle damage repair tasks during the early phases of the war.

The SYMBA study establishes a clear base against which we can measure whether or not the Administration's claim that the naval building program is sufficient to maintain the required shipyard capacity is correct. This claim is based upon the Navy's five year plan to place orders for 125 new naval vessels and to sustain a high level of repair and overhaul throughout the period 1985 through 1989. Assuming that the Congress provides full funding and agrees to the proposed mix of ships, the budgeted expenditure for new buildings is $84 billion. Repair and overhaul costs add approximately $25 billion to planned expenditures.

The number of new vessels to be built is not an important statistic. For example, in the period 1962 through 1966 orders were placed for 164 naval vessels. In the period 1971 through 1975 orders for 154 commercial vessels were placed by private shipowners in addition to naval orders.

The assertion that the Navy program alone will sustain the required shipyard base can be tested easily and accurately.

First, as the members of this Committee know with certainty, a planned budget expenditure does not translate directly into shipyard employment. Key questions are: (1) whether or not the requested funding will be appropriated by the Congress and (2) how many production workers are required to perform the budgeted expenditure? The second question disregards the important corollary question of the match between location of the work and facilities defined within the SYMBA study as required; however, the fundamental question is answered without need to consider this second issue.

The shipyard workload produced by a given expenditure is determined by reducing the expenditure to account for (1) the cost of the Navy's management of the program and (2) the cost of the weapons systems and equipments which are procured

by the Navy for installation on the vessels. This calculation reduces the appropriated funds for naval shipbuilding which reach the shipyards as contract funds to be somewhat less than 40 percent of the original appropriation. Using 40 percent, the resulting planned expenditure in the shipyards over five years is $33.6 billion. Assuming that expenditures are level during the five year period, as would be consistent with the goal of efficient production, only about $3.36 billion per year is actually used to purchase the skills and services of the shipyards. The remainder is spent to purchase the materials and equipments used to construct the vessels.

The number of production workers employed by an annual expenditure of $3.36 billion for new construction, using current rates of pay and productivity, is 75,000. Naval overhaul and repair in private shipyards, based on an historically high value of 40 percent as the private share of the additional budgeted expenditure of $5 billion, adds 20,000 to 22,000 workers. Thus, the maximum number of workers sustained in the private sector by an annual naval shipbuilding expenditure of $16.8 billion plus total expenditure for repair and overhaul of $5 billion is 97,000. The required number of workers to be sustained was, however, 112,000. A shortfall of 15,000 workers is calculated or 13 percent of the requirement defined in the SYMBA study.

The average funding which must be appropriated by the Congress, if total spending of $84 billion is to be authorized in the period is, of course, $16.8 billion. What does the record show as to a comparison of requests and appropriations for naval new construction under the Reagan Administration? The following data indicates the record of the past four fiscal years:

COMPARISON OF REQUESTED AND APPROPRIATED FUNDS

[In billions of dollars]

Year	Requested	Appropriated
1981	$6.2	$7.5
1982	10.3	8.9
1983	18.6	16.0
1984	12.7	11.4

In 1983 $16 billion was appropriated to allow construction of two aircraft carriers. The average appropriation of the other years was $9.3 billion. The average appropriation for 1982 through 1984 was $12.1 billion. Is it reasonable, therefore, to expect that funding will be increased, on the average, by $4.7 billion in each of the next five years to reach $16.8 billion as the average annual expenditure? To claim that a critical national security asset, the shipyard mobilization base, will be maintained by assuming full funding of all requested appropriations is irresponsible, ignoring the fact that full funding of the naval program is insufficient to achieve this objective.

Other calculations allow determination of the reduction in the number of shipyard workers that occurs for a given reduction in funding of the naval shipbuilding or repair and overhaul budget. A reduction of $1 billion in any year eliminates employment for 4,400 production workers or 3.9 percent of the established requirement of 112,000. Thus, a reduction of the naval shipbuilding program by $4.7 billion to the average expenditure level of 1982 through 1984 results in a shortfall of available production workers of 35,600 or 32 percent of the mobilization requirement. These calculations assume that the repair and overhaul budget is maintained at the $5 billion per year level and that the private share of this workload is 40 percent. Both assumptions use historically high figures.

In regard to the vital question of the future availability of facilities, it is observed that since the count of facilities was completed in the fall of 1982, 10 of the 110 private shipyard facilities assumed as available have closed while no facilities which were not included have become available. Facility availability is expected to rapidly degenerate in the near future unless constructive actions are taken in the very near term.

In spite of these statistics, the Administration continues to state that they have solved the problem of maintaining the shipyard base through the naval building program alone. In fact, Admiral Shear, the Maritime Administrator, in a recent letter to Congressman Fields stated that the naval shipbuilding program would occupy 111,000 workers in the late 1980s. The Admiral used total employment and assumed full funding. The employment statistic of the SYMBA study requires

112,000 production workers—not total employment. The Administration's claim that naval shipbuilding alone provides adequate work to maintain the shipyard mobilization base is intellectually dishonest at a minimum.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. I realize that the cost of labor in U.S. shipyards cannot be competitive with the Korean and Japanese yards. But this morning CASO will testify that the cost of building U.S. is approximately three times as much as building foreign; that construction takes two to three times longer in the U.S.; and that U.S. shipyards and suppliers do not offer the same level of engineering and equipment technology for the construction of liner vessels.

(A) Do you agree with CASO's assessment? (B) If not, isn't there some way for the shipbuilding industry and the liner industry to agree on just what the situation is? It seems to me that before we address the problem it would be helpful to know what its dimensions are.

For example, even if we were to deal successfully with the labor cost differential thru some form of subsidy, it would not solve the problem of making the liner industry competitive if delivery time were significantly longer, and our technology were behind.

Answer. The Shipbuilders Council does not agree with the Council of American Flag Ship Operators that the cost of building a vessel in a U.S. yard is approximately three times as much as building foreign; construction takes three times longer in the U.S.; and U.S. shipyards and suppliers do not offer the same level of engineering and equipment technology for the construction of vessels.

We believe that represents an oversimplification and an over statement of the problem. There exist differences in price and delivery time in construction of a vessel in a U.S. shipyard and building a similar vessel in a foreign yard. These differences in cost and delivery time vary greatly with vessel type and the size of the ship order. Moreover, U.S. shipyards in the past few years have made extensive investments in facilities to upgrade their productivity.

Question. One of your proposals would require $450 million to initiate a program for building militarily useful car carrier vessels "to be made available at world competitive costs" for use in the transport of automobiles and trucks from Japan.

Exactly how would this proposal work? Would it, for example, require commercial cargo preference for carriage of the automobiles and trucks?

Answer. The Shipbuilders Council's proposal, called a Mariner II Program, calls for the construction in domestic shipyards of five flexible vehicle carriers, capable of carrying all types and sizes of wheeled vehicles, from compact cars through trucks, trailers and agricultural equipment to construction equipment and other outside units up to 100 tons. The statutory authority for this program is Title VII of the Merchant Marine Act of 1936.

The Maritime Administration would acquire the ships by competitive bidding among qualified and experienced U.S. shipyards, contracting for their design and construction in the most cost-effective way. On completion they would be offered for sale or charter, either singly or in groups, to any qualified U.S. owner, whether now in existence or formed for the purpose. The sale prices and charter rates will be calculated and/or negotiated to be competitive in the world market.

A commercial market exists where the Mariner II could profitably trade, namely, the carriage of automobiles from Japan to the United States. The Japanese have agreed to a voluntary export quota of 1.8 million vehicles to the U.S. market. The shipping requirements of the quota are being filled by approximately fifty foreign-flag carriers, predominantly Japanese-flag. There is no adequate reason why the United States Government cannot require, as a condition of access to the lucrative U.S. automobile market, that a percentage of these vehicles be transported on U.S.-flag vessels. This does not amount to commercial cargo preference per se. It is more a question of allowing the Mariner II to compete with foreign-flag car carriers in this market.

Question. Everyone agrees that something must be done soon to remedy the appalling state of the U.S. maritime industry. While some segments are in worse shape than others, each needs to be revitalized.

In the process of seeking solutions, however, we know that substantial amounts of additional Federal funds are not available; and that it is not politically possible to enlarge the scope of cargo preference significantly at this time. We should also be

aware by now that a willingness to compromise among all segments of the industry is absolutely essential if we are to solve the problem.

I know that there is an industry Maritime Advisory Committee which discusses industry problems with MARAD and DOT. And, of course, the administration has submitted its legislative program to promote the industry. Those proposals, however, are controversial and some segments of the industry oppose them.

It seems to be that as a first step we ought to see if we can't get the entire industry working together. In this connection I wonder if we could develop a format for a dialogue which would help achieve a consensus among all segments of the industry and the Government.

Under the format I have in mind, each segment of the industry would be asked two questions:

What do you really need?

What are you willing to give?

Once each segment agrees upon its answers to those questions, everyone could sit down together and see if there was a common denominator for a maritime policy.

Let me cite an example of how such a format might work. I wish to emphasize, however, that these proposals are for illustrative purposes only, and are in no way to be taken as my recommendations.

There are several long-term ODS contracts outstanding. Some of them extend to the year 2001. According to our committee's budget projections, for just the next 5 fiscal years ('85-'89), those ODS contracts will cost the Government over $2 billion in payments; and, of course, it will cost the Government hundreds of millions more for the remaining years beyond fiscal year '89.

Now, of course, MARAD is considering "buy outs" and early termination of those ODS contracts. Even if early termination and "buy outs" are permitted, however, the fact remains that the Government will have to spend many hundreds of millions of dollars.

Suppose the liner companies were to receive the following benefits as a result of concessions and compromises by the Government, maritime labor, and the shipyards:

Permission to build or acquire foreign with CCF, and title XI.

Remove the 50 percent ad valorem tax on repairs done in foreign yards.

Reduction in manning levels, and some other fringe benefits to be agreed upon between labor and management.

Release from ODS restrictions: Replacement obligations; Essential trade routes; and financial restrictions.

Immediate eligibility of foreign-built or acquired vessels to carry cargo preference.

In return, the liner companies would agree to give up their remaining ODS contracts within the next, say 3 years, without any payment from the Government.

If this were done, of course, it would free up hundreds on millions of dollars which the Government is now legally obligated to pay out thru the year 2001. That money in turn could be used for some form of subsidy to the shipyards, and that would be what the shipyards would receive in return for not opposing "build foreign," etc.

The increased shipbuilding activity in U.S. yards which should result, plus the expansion of the fleet thru build/acquire foreign, would mean more jobs; and that is what maritime labor would receive.

The program would not require the expenditure of any additional funds. The revenues that would be lost by removal of the 50 percent ad valorem tax on foreign repairs would be offset by the taxes which would be generated by the increased economic activity.

As I said, these proposals are intended to illustrate how the "quid pro quo" format I had in mind could work.

Do you think it would be useful for each segment of the industry to go through this kind of exercise?

Answer. The Shipbuilders Council shares your view that something must be done soon to remedy the appalling state of the U.S. Maritime Industry. We believe, however, that there exists a lack of understanding of the underlying national security problem confronting the country.

In our view that problem can be stated as follows: Due to dramatic shifts both in commerical markets and government policies, here and abroad, commercial markets which have previously been relied upon to provide sealift, shipbuilding and ship repair assets required to fulfill national security objectives can no longer be relied upon to provide these assets.

Basic to any solution of the problem is a quantification of those sealift, shipbuilding and shiprepair assets needed to fulfill national security requirements. This task

of quantification must be performed on an ongoing basis. Once these assets have been quantified, the next question is how should the nation provide: sealift assets in sufficient quantity and possessing operational characteristics as determined by national security demand and shipbuilding and shiprepair capability and capacity defined as essential to meet national security needs—both at lowest cost intoto?

Senator GORTON. Thank you very much, Mr. Rice. And I understand Admiral Miller and Admiral Aylmer will be before us in the form of a panel. We had previously listed Julian Singman of the Maritime Institute for Research and Industrial Development as a witness. He canceled. He has a statement which will be included in the record.

STATEMENTS OF ADM. FLOYD H. MILLER, USN (RET.), PRESIDENT, STATE UNIVERSITY OF NEW YORK MARITIME ACADEMY, REPRESENTING PRESIDENTS, SUPERINTENDENTS AND REPRESENTATIVES OF THE MARITIME ACADEMIES/COLLEGES OF CALIFORNIA, MAINE, MASSACHUSETTS, MICHIGAN, NEW YORK, AND TEXAS; AND REAR ADM. JOHN F. AYLMER, USMS, PRESIDENT, DIVISION OF STATE COLLEGES, MASSACHUSETTS MARITIME ACADEMY

Admiral MILLER. Good morning, sir. I am president of New York Maritime College and I represent the presidents and superintendents of the the State maritime academies and colleges of California, Maine, Massachusetts, Michigan, New York, and Texas. Admiral Aylmer from Massachusetts is with me today to address a singular subject that he has, and I have two on behalf of all of the other academies.

I deeply appreciate the opportunity to testify here today. We have a written statement for the record and I would like to summarize.

Senator GORTON. It will be included in full.

Admiral MILLER. Unfortunately, the fiscal year 1985, the Department of Transportation budget request did not include fuel funding for our State academy training ships on loan from the Federal Government, and it reduced our student incentive payments for our Merchant Marine Reserve midshipmen, where they get $100 a month, by $77,000. Both are as allowed by the 1980 Federal Maritime Education and Training Act, which was the followon of the 1958 act. Actually it is since the State Nautical School Act of 1874, which established the first school.

These funds were contained in last year's appropriation. I hasten to point out that our students at the State maritime academies pay tuition, room and board, and other fees. The student incentive payments help. S. 2499 and its companion bill, H.R. 2706 in the House, restore these funds.

Training ship fuel is critical to our operation. Our training ships must operate 2 months a year if we are to fulfill Federal training requirements. To keep costs down in the past, we have done many things—reduced training, anchored at night, reduced ship handling, reduced maneuvering, engineering casualty drills. And this I consider as unsatisfactory under the international standards. We have even cut at-sea time by counting pre and post-cruise times so that we could conserve fuel.

This is exacerbated by the upcoming International Maritime Organization Standards for Training and Certification of Watchkeepers, which require 1 year at sea for deck cadets or equivalency. More training time will be federally required.

SIP is important to the input cohort of the U.S. Naval Reserve, Merchant Marine Reserve. It insures the existence of the Merchant Marine Reserve. Not only does a 10 percent reduction this year impact on all of the State academies; MarAd anticipates cuts up to 50 percent in the next 4 years.

Together we graduate approximately 600 graduates a year. Approximately 10 percent opt for active duty in the Navy, Coast Guard, and NOAA. We are training a cadre of officers who can be mobilized in time of emergency to man our merchant marine. This is a reserve component. It is vital to our Nation. Without it, we could invite a manpower crisis.

Since 1874, the States and the Federal Government have had a partnership in maritime education and training. We believe it is in the best interest of our country to continue to do so. We request your support.

I would be pleased to answer any questions on those issues.

[The statement follows:]

STATEMENT OF THE PRESIDENTS, SUPERINTENDENTS AND REPRESENTATIVES OF THE MARITIME ACADEMIES/COLLEGES OF CALIFORNIA, MAINE, MASSACHUSETTS, MICHIGAN, NEW YORK, AND TEXAS

Mr. Chairman and members of the committee, we, the Presidents, Superintendents and Representatives of the State Maritime Academies/Colleges of California, Maine, Massachusetts, Michigan, New York and Texas wish to express our appreciation for this opportunity to present our comments regarding the proposed authorization for appropriations for maritime education intended for the operation of the Maritime Administration of the Department of Transportation.

In this past year, the Congress gave concrete expression to the partnership between the Federal Government and the several States operating maritime colleges by appropriating the sum of three million dollars ($3,000,000) for the provision of fuel for the Federal training ships assigned to each school. This was in addition to the amount allocated by level-funding for specific grants for student subsidies and incentive payments and the direct grant of one hundred thousand dollars ($100,000) to each Academy/College.

Unfortunately, the budget proposal for fiscal year 1985 originally submitted to the Congress by the Department of Transportation did not include a request for an appropriation of a similar amount. We are appealing to the Congress to authorize and appropriate the fuel support funds in an amount equal to that appropriated for the current fiscal year. Our appeal has been heard in the Merchant Marine Subcommittee of the House Committee on Merchant Marine and Fisheries and the bill, H.R. 4706, contains the authorization for fuel.

Until this year the Academies have been placed in an exceedingly difficult situation because of the tremendous increases in the price of fuel they had to fund in their operating budgets. The ships are required to operate at least two months each year, regardless of cost, if we are to fulfill Federal student training requirements. In order to keep costs to a minimum, many steps were taken in regard to at sea training, i.e. reduce ship handling, maneuvering, anchoring at night, etc. The net result of this act was to diminish the quality of the sea experience although continuing to meet the minimum qualifications. Over the same years of inflation, the Federal share of contribution to the operation of the Academies was reduced from nearly one-third to less than ten percent. Thanks to the understanding of our situation and a consequent decision to reinforce the partnershp with the States through the appropriation of fuel support funds, we are in a much better position, not only financially, but from the aspect of improved opportunities for training.

Continuation of this fuel support is doubly important as the rules governing training of deck officers undergo changes mandated by the adoption by the United States of the International Maritime Organization Standards of Training, Certification and

Watchkeeping for Seafarers that require one year or an acceptable equivalent training aboard ship. Adoption of this convention will require us to expand the sea training of our deck students at considerable additional cost to our institutions. The provision of fuel for the operation of the training ships on their annual cruises greatly reduces this problem.

The budget request from the Maritime Administration also includes a reduction of ten percent in the amount requested for student incentive payments (SIP). This reduction is based on the expressed intention of the administration to reduce the number of students supported under the auspices of the Maritime Education and Training Act of 1980 by fifty percent over the next five years. We view this decision with alarm and concern, not just from the point of view of the future viability of our programs, but more importantly as a direct threat to the future availability of trained merchant marine officers in the event of a national emergency. The purpose of the student incentive payment program is to assure the existence under the Naval Reserve of a trained merchant marine reserve and to guarantee the availability of these officers in times of emergency. To arbitrarily reduce the available pool by one-half by cutting the input as this policy would do is to invited a manpower crisis in the future that could not be resolved in a time frame that would be affective were an emergency to occur.

In response to our appeal and in recognition of this logic, H.R. 4706 includes the necessary funds to restore the SIP to its current year level. We trust that the Senate Merchant Subcommittee of the Committee on Commerce, Science and Transportation likewise will understand the importance of the naval reserve commitment our graduates assume and will take the necessary steps to restore this vital funding.

The Congress does not need to hear more evidence from us of the sorry state of the American Merchant Marine. We know that you are addressing the issues and developing the legislation which will in good time preserve and restore that merchant fleet which is essential for our survival and continued presence on the high seas. Our academies are an integral part of the whole and our survival depends on your continued support. When ships are needed, officers to man them will also be needed. The generations trained to operate the ships in the years when the merchant fleet was much larger are nearing retirement. The young men and women now in our schools will be available for years to come when the current situation in our fleet has been reversed. Our graduates are finding employment at sea in merchant ships, in the U.S. Navy and Coast Guard, in off-shore drilling and exploration and on our rivers and canals and in our harbors, as well as in fishing, marine related employment ashore and in engineering positions related to their training and experience. Our employment record is better than that of most States Colleges and university systems.

The Maritime Education and Training Act of 1980 established obligations for our students and graduates in order to assure a supply of merchant marine naval reserve officers, who will be trained and available immediately for service as needed in the merchant marine or navy in response to an emergency. The manning of our ready reserve and national defense reserve fleet ships and even the so-called effective controlled (U.S. owned foreign flag) ships in response to national emergencies will require the call up of large numbers of merchant marine reserve officers if these ships are to operate effectively with the U.S. Navy.

The total number of graduates of the six state academies per year is less than 800 of whom over 100 opt for active duty in the Navy or Coast Guard. For our island nation, so dependent upon the sea and commerce, this is a very small number of graduates to be partially supported by the government. Our students pay tuition and fees for their education, which includes the requirement for training cruises, naval science courses, eleven month academic years, and earned Federal licenses and degrees in a uniformed and disciplined environment. The several states support the balance of academy expenses. The federal government share, including student subsidies, ship maintenance and repair, and the fuel oil provision amounts on the average to less than twenty-five percent (25%) of the total cost per graduate.

This sharing of effort represents one of the best bargains available to any government, and yet the Administration this year seeks to reduce by ten percent (10%) the number of student incentive payments ($100 per month for uniforms, books and subsistence) allocated to each of the academies. This very small savings in outlay to the federal government imposes a severe financial hardship on our students while reducing the incentive to develop an adequate merchant marine reserve. Without the fuel contribution, and with the proposed student incentive pay reductions, the federal contribution to our program would be reduced by one-fourth.

We submit that the continued existence of our State supported institutions assures the most economical, cost effective method of producing maritime officers

ideally suited to work in the related industries which contribute so much to our gross national product. We believe that our students return far more to the economy than they cost and that the survival of the State Academies/Colleges is in the national interest.

The appropriation of the funds we have requested is important to our continued well being. The state maritime academies and colleges at minimal federal cost have produced and continue to train outstanding officers for service in the merchant marine, the U.S. Navy and Coast Guard, NOAA and other service related organizations. We appreciate your past support and trust that we may continue to receive your confidence and support in the future.

Senator GORTON. Thank you very much. Admiral Aylmer.

Admiral AYLMER. Senator Gorton, Senator Trible, I appreciate as well the opportunity to appear here today to speak with a degree of specificity concerning a matter peculiar to the Massachusetts Maritime Academy. As the distinguished Senators might know, the Maritime Administration recently acquired what is the first new ship to be put into the training ship inventory—new—however I would hasten to add it is a 20-year-old ship.

The ship that I just returned from after being afloat for 2 months is Admiral Miller's ship, the *Empire State,* which is a 34-year-old ship. I cruised for 4 weeks this month and I wanted to emphasize that for 3 years, Massachusetts being without a training ship, has had to borrow either the *State of Maine* or the *Empire State,* for which we are eternally grateful to those academies. But we have taken training platforms away from alongside of those institutions, to the detriment of all three of our institutions.

The *Mercedes,* which was recently purchased by the Maritime Administration, is in desperate need of supplemental moneys in order to effect what we consider to be an appropriate conversion of that vessel from a cargo passenger ship to a training ship. She is presently capable of lifting 150 passengers. We have to embark in excess of 700 officers and cadets when we cruise.

The House, with a degree of sensitivity, I submit, added an additional $5 million in order to effect an appropriate conversion of this vessel. We feel very strongly, given a very professional approach to cost estimating, that an appropriate conversion should total something in the vacinity of probably $17 million. We are anxious to see at least $12 to $14 million available to MarAd to effect an appropriate activation and conversion, and if this money is not added, I submit we will simply be revisiting the Congress year after year to do a job that should have been done correctly in this fiscal year, rather than later at greater cost to the taxpayers of the United States.

My urging is pretty much reflected in my comprehensive statement earlier submitted, along with the brief, and I would invite the Senators to pose any questions that they might have.

[The statement follows:]

STATEMENT OF REAR ADM. JOHN F. AYLMER, PRESIDENT, MASSACHUSETTS MARITIME ACADEMY

Mr. Chairman and members of the committee, by way of introduction, I am Rear Admiral John F. Aylmer, President of Massachusetts Maritime Academy located at Buzzards Bay, Massachusetts. Our cadet enrollment consists of 800 young men and women who are matriculating in a four-year program leading towards licensure as Third Mates and Engineers, a Bachelor of Science Degree, and Ensign Commissions in the Navy or Coast Guard or other branches of the armed forces.

I would like today to augment the comments set down by the various Presidents of the State Maritime Academies embodied in Admiral Miller's statement of the collective needs of the Regional Maritime Academies, and at the same time stress emphasis with respect to the critical need for supplemental monies for the conversion of the SS *Santa Mercedes* from cargo liner status to Training Ship configuration for subsequent utilization by Massachusetts Maritime Academy.

As the Committee will recall, Massachusetts has borrowed a training vessel from its sister institutions for each of three consecutive Training Cruises following the constructive total loss of the 31 year old *Bay State* from an engine fire in 1982.

The Congress later in 1982 appropriated the amount of 10 million dollars for the purpose of repairing or replacing the *Bay State*. The decision was recently made by MARAD to purchase the *Mercedes* as a replacement vessel and the ship was acquired for 4.2 million.

The *Santa Mercedes*, a cargo/passenger vessel capable of transporting and accommodating 150 passengers, must now be reactivated and converted in order to meet the seagoing training needs of Massachusetts Maritime Academy. We customarily cruise with 700 cadets and officers annually to meet the seatime prerequisites of Merchant Marine Licensing. The dimensions of the necessary conversion by that fact alone can well be appreciated by even superficial estimation.

The Maritime Administration should be applauded on their willingness to involve Massachusetts Maritime Academy in the ship selection process as well as the planning associated with activation and conversion of the ship. Admiral Harold Shear has been most sensitive to the Academy's dilemma of being ship-less and has been most instrumental in ensuring sea time availability (crucial to graduation and licensure) to our cadets over the period of three difficult years.

We are now at a most important crossroads with respect to the long-term future of maritime training at my institution. It is strongly believed by myself and my technical staff that the monies remaining after purchase of the MERCEDES is inadequate to effect a safe and adequate activation and conversion.

Your Committee should be made aware of the fact that an extensive study was conducted on this vessel by competent and professional mariners at Massachusetts Maritime Academy assisted by private sector consultants and advisors.

This study concluded that at the very minimum something in the order of 14 million dollars would be required to effect a conversion that would be professionally and academically suitable as a Training Vessel. Indeed a recent updating of conversion cost estimates predict a total cost approaching 17-18 million.

Today I earnestly request that this Committee provide 5 million to supplement the 5.8 million remainder monies of 1982 in order to more properly effect the desperately needed conversion of the *Mercedes*.

I am aware of the stated position of the Maritime Administration that the ship can be suitably and safely converted with the appropriation money currently available. I am, however, of the opinion that a number of important facets related to this conversion will surely have to be deleted without supplemental money here and now. I am quite certain that the resultant vessel will not provide many of the minimum training facilities necessary for effective shipboard training of this country's future young seagoing officers. It is interesting to note that newly constructed training vessels offering the very latest "state of the art" equipment have been built for the exclusive use of Merchant Marine colleges in Mexico and the Philippines.

It is already clear in the earliest stages of the *Santa Mercedes* conversion project that deficiencies likely to result from funding shortfall will include the addition of a Training Bridge and an Navigation Laboratory, the installation of a cargo and boat handling crane, a engineering machine shop, a welding shop, and possibly a large diesel generator so essential to good modern marine engineering training. These are but a few of the facets of conversion that are in possible jeopardy due to inadequate funding—many more are anticipated to result absent the additional funding I request today.

Unexpected, unanticipated and newly-found problems have and will continue to arise during the project—and will translate into funding items. Such an example is the recent disclosure that cargo hold insulation will have to be removed because of toxicity—to make room for habitable spaces for cadet berthing. This removal, while now a varible in terms of cost, will be labor intensive and costly, serving to draw down and erode the presently available money resources. Additionally some hull damage must be repaired to render the vessel seaworthy.

Extensive furnishing and equipment needs ranging from pots, pans and crockery to blankets, bedding and electronic gear will additionally draw down available monies. This large cost item together with the aforementioned problems, will impair the quest for a thorough and complete conversion so much desired by all parties

concerned. I recite these factors in order to allow the Committee to realize how improbable it really is that the job can possibly be done within the parameters of the existing available money—indeed to assume so is naive.

We are in search of two basic goals: (1) to offer the young men and women training as this nation's future seagoing Officers, a Training Ship that is efficient, as modern as possible, and one that we can as a Nation be proud of, and (2) to do this job correctly at this time in order not to revisit the Congress in yet another year to look for even more money to "finish" an inflated conversion that should have been done effectively to start with this year.

The time is critical—the need is now. On behalf of the Masssachusetts Maritime Academy, its Officers, Staff and Cadets, I seek your support for our contention that an additional appropriation of $5,000,000 is vital in providing for a durable, efficient and adequately equipped Training Vessel. One only has to examine the history of costs of not only upgrading presently active ships but also of those which are reactivated. To determine that in all cases the expenditures have had to be augmented by often as much as half again of the original sum. This is usually due to inappropriation of sufficient funds to accomplish the task in the beginning in the correct manner. Upon scrutiny of the conversion cost estimates of the *Santa Mercedes*, I think you will agree that there is little cause to believe that we are asking for impractical or nonessential items.

The current administration is absolutely correct in its search for reductions in expenditures to offset the national deficit and yet it is inconceivable to me that the administration wants arbitrary cuts or reductions which would jeopardize the completion of a significant and contributive rebuilding program. Further, there is nothing to gain by delivering a ship to an academy with less than adequate training capabilities since such a ship can only look forward to frequent times in shipyards and greater expenditures than originally conceived. None of the consideration given this project has been slight or casual. Our findings are, in our professional judgement, as accurate as possible.

We have an opportunity here to be a guiding beacon for not only other academies but also for the U.S. Maritime community at large. There should be no ship, training or cargo carrier, that should be ill equipped for its vital role. We are proud of our new acquisition, proud of the efforts and dedication of our staff and that of MarAd towards creating the best possible training vessel for our young people. Furthermore, we wish to be proud of the completed ship knowing that she will last for years longer than her predecessors and stand as an example in the Merchant Fleet.

Senator GORTON. Your full statement will be included in the record, Admiral.

With that, we would like to thank both of you very much for being here. We are adjourned.

[Whereupon, at 10:40 a.m. the hearing was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATMENTS

U.S. SENATE,
Washington, D.C., April 4, 1984.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: As representatives of coastal states in which state maritime academies are located, we wish to express our appreciation to you for including in your Maritime Administration legislation authorizations for (a) $3 million in Federal training vessel fuel assistance to the state academies and (b) full funding of the Student Incentive Payment (SIP) program. Both provisions are essential if the State Maritime academic are to further their mission to train and prepare cadets in the operation and maintenance of modern vessels in the U.S. Merchant Marine and U.S. Navy.

We also wish to express our hope that the Subcommittee will see fit to approve the authorization necessary to complete, in Fiscal Year 1983, a major overhaul of the S.S. Santa Mercedes, recently purchased by the Maritime Administration for use by the Massachusetts Maritime Academy. This vessel is urgently required by the Massachusetts Academy; until it is available the school must share the training vessels of the Maine Maritime Academy and the New York Maritime College. This ship-sharing arrangement creates serious training problems for all three schools; it must be terminated as soon as possible.

Marad's decision to take decisive action to meet the training vessel needs of the Massachusetts Academy is noteworthy. We urge the Subcommittee to prompt Marad to develop a long range plan under which the training vessels of the remaining four salt-water academies can be replaced or substantially overhauled. As you know, this is not the first instance in which a group of Congressional representatives have advocated that Marad develop a comprehensive plan to meet the state academies' training vessel needs. Representative Les AuCoin's Ad Hoc Subcommittee on Maritime Education and Training in 1980 made a similar recommendation.

The problem was a serious one in 1980; it is now critical. The Administration must take action soon to insure that the state academies can safely and effectively train their cadets at sea. Past experience leads us to believe that Marad will not seriously develop a satisfactory plan unless directed to do so by the Congress.

Thank you for your consideration of these comments and requests. We look forward to working with the committee in an effort to further promote excellence in U.S. maritime education and training.

Sincerely,

WILLIAM S. COHEN,
PETE WILSON,
ALFONSE M. D'AMATO,
LLOYD BENTSEN,
JOHN TOWER,
GEORGE J. MITCHELL,
PAUL E. TSONGAS,
EDWARD M. KENNEDY,
DANIEL P. MOYNIHAN,
ALAN CRANSTON,
U.S. Senators.

FEDERAL MARITIME COMMISSION
Washington, D.C., March 27, 1984.

Hon. TED STEVENS,
Merchant Marine Subcommittee, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR SENATOR STEVENS: The Federal Maritime Commission has prepared its budget estimates for the fiscal year 1985. As Chairman of the Senate Commerce

Committee's Merchant Marine Subcommittee, I thought you should know what that budget comprises. Appropriations for the FMC are made through the Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill. In light of the recent enactment of the Shipping Act of 1984, this budget should be of particular interest to you in that it reflects organizational and operational changes necessitated by new provisions in the law. For the most part, we have anticipated our fiscal year budgetary requirements under the new law and have planned accordingly. This submission is fully consistent with the President's budget as submitted to the Congress in January.

Specifically, our fiscal year 1985 budget estimates in the amount of $12,292,000 provide funding for 239 total workyears of employment. Including pay supplementals, this is an increase of $1,346,000 above the $10,946,000 budget for 1984. This increase comprises $455,000 for personal services; $415,000 for SLUC rates increased by the General Services Administration; $121,000 to enable the Commission to complete its acquisition of word processing equipment for its field offices and replacement of obsolete equipment at headquarters; $105,000 for other services and supplies; and, $250,000 to enable the Commission to acquire and further develop necessary and relevant ocean shipping market information.

By way of background, market information in this context means the total percentage of cargo transported by individual steamship companies in the foreign commerce of the United States (market shares), as well as commodity-specific information for any given ocean trade. This information is critical to the statutory responsibilities of the Commission under the recently passed Shipping Act of 1984. Under section 18 of this new law, the development of this data is mandatory.

Let me take this opportunity to give you an overview of the Commission's activities and accomplishments during this last fiscal year. The Commission is responsible for the regulation of ocean carriers in the U.S. foreign and domestic offshore trades. The FMC investigates discriminatory rates and practices among shippers, carriers, terminal operators, and freight forwarders operating in the U.S. ocean commerce; licenses independent ocean freight forwarders; provides passenger vessel certification and, until September, 1983, certified that vessels in U.S. waters were financially responsible for the the clean-up of pollution by oil and hazardous substances. This responsibility was transferred to the Department of Transportation in September 1983.

During fiscal year 1983, the Commission issued 330 final decisions. Of these, 58 were formal proceedings, 116 involved special docket applications, 143 were informal dockets involving shippers' small claims against ocean carriers, and 13 related to rulemaking proceedings.

The Commission collected a total of $1,562,000, which was subsequently deposited with the U.S. Treasury. This included $1,065,000 for fines and penalties related to various violations; $372,000 for water pollution application and certification fees; $67,000 for freight forwarder licensing fees; $30,000 for publications and reproductions; and $28,000 for special permission and special docket application fees. The revenue collected represents 13 percent of the Commission's 1983 operating expenses. Through the assistance of the FMC's Office of Informal Inquiries and Complaints, the shipping public was able to recover more than $185,000 directly from commercial entities.

As I have indicated, responsibility regarding certification of vessels for oil spill liability was transferred to the Department of Transportation in September of 1983. The Commission, together with OMB, hopes to realize similar benefits for the agency and the public in seeking transfer to the Coast Guard of the Commission's jurisdiction over passenger vessel operators under sections 2 and 3 of Public Law 89-777. This additional transfer is another step in the Commission's effort to better focus operations on fulfilling the FMC's primary mission, thus providing better, more consistent service to all segments of the industry and the regulated public. The Commission anticipates that this action will allow for a workforce reduction of two full-time positions and budget authority reductions of $71,000. The 1985 budget fully reflects these changes. I look forward to having your support for this proposal. Additional information will be provided to you and the Commerce Committee shortly.

Several months ago, the Commission took the first step in what could amount to sweeping changes for the U.S. maritime industry and the filing of tariffs. In a public announcement, the Commission requested public comment on its plan to promote development of an automated tariff filing system by the private sector. It is envisioned that a paperless electronic system for the filing, storage, and retrieval of traiff information could realistically be developed to service the needs of the Commission, as well as to satisfy the needs of the many and varied interests that use

this information in the conduct of U.S., foreign and domestic commerce. The development and operation of such a system would be subject to oversight by the FMC and, if legally feasible, undertaken at no expense to the Federal Government.

At the close of fiscal year 1983, the Commission initiated a Notice of Inquiry for the purpose of soliciting public comment on the regulation on ports and marine terminal operators under the Shipping Act, 1916. The issues to be addressed include the filling and approval of theminal agreements, the need for continued antitrust immunity for marine terminal operators, and the Commission's future role in marine terminal regulation.

The Commission has undertaken a major effort to modernize policies and regulations so that the Government minimizes unnecessary intervention in commercial shipping operations in the United States. The FMC is especially proud of its accomplishments during the past several years because this great progress has been achieved while maintaining a high level of cost-consciousness and a program of fiscal austerity. The Commission is committed to the President's goal to reduce the growth in the size of the Federal Government and to bring spending by the Federal Government under control. Current programs have been fully reviewed and numerous activities have been diligently pursued to modernize the agency, better deploy the talent and experience available to the Commission, and prepare the FMC for new legislation and the sweeping changes that will result. Now, the Federal Maritime Commission has a more effective and efficient operation, one that is better prepare to fulfill the FMC's primary statutory mission. This has been accomplished well within budget and the agency continues to make the best use of the resources provided.

Should you have any questions regarding the Federal Maritime Commission's budget for fiscal year 1985, please do not hesitate to contract me at 523-5911. I sincerely appreciate the opportunity to make this information known to you and look forward to working closely together in the coming years.

Sincerely,

ALAN GREEN, Jr.,
Chairman.

JOINT MARITIME CONGRESS,
Washington, D.C., April 3, 1984.

Senator TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR SENATOR STEVENS: The Joint Maritime Congress respectfully requests that the following statement on S. 2499, the fiscal year 1985 Maritime Authorization Bill be included in the Subcommittee's hearing record.

The Joint Maritime Congress supports S. 2499 with deep reservations. We believe that it is important to pass a maritime authorizations bill. Three years and three bills have come and gone and none has been signed into public law. We have suffered through too many midnight sessions, thrashing around in the dark at the end of the year trying to put together a funding bill. The results have been slapdash at best. To go another year without enacting such legislation would only invite further ridicule which the maritime community can ill afford.

The JMC has consistently supported the concept of a "clean" authorization measure. We are grateful that this has historically been the policy of the subcommittee. However, it has unfortunately become the practice of the House to attach substantive amendments to this type of legislation. Although we appreciate that these are not frivolous concerns, it is our position that such policy questions should be addressed in separate legislation. The JMC is pleased that the House Merchant Marine and Fisheries Committee recently reported out H.R. 4076, its FY '85 MarAd Authorization bill, with only minor amendments. The Joint Maritime Congress hopes that the Senate Commerce Committee will shortly follow suit and that we will have a funding bill that we can all live with for this session.

Although we believe that S. 2499 should be reported favorably out of Committee, this should not be translated into an endorsement of its funding levels. Last year, the Joint Maritime Congress wrote to the Subcommittee expressing its views on the FY '84 MarAd Authorization bill. Little has changed. We contend now, as we did then, that the funding is hopelessly inadequate unless its purpose is to condemn the U.S.-flag fleet to further reductions, inefficiency and mediocrity. In addition, the JMC proposes that the money spent on Research and Development should be carefully chaneled into programs dealing more with current problems whose solutions can be addressed in the near term rather than futuristic schemes aimed for the fleet of the 21st century.

The Joint Maritime Congress has also been a longstanding advocate of a permanent build and acquire foreign authority for subsidized U.S. operators. The JMC member companies have repeatedly stated that they would construct in the United States if there was some form of government subsidy or similar mechanism that could provide parity in domestic costs. They have similarly requested assurances that technology and delivery times available in foreign yards will be matched in U.S. shipyards. We are aware that the full Committee held hearings last year on this proposal and that it was a particularly contentious issue. From all indications, the operators and shipyards are still 180 degrees apart when it comes to foreign building. Something, however, has to be done soon to break this deadlock.

The JMC realizes the legislative time constraints imposed by an election year, but as each year passes, more and more U.S.-flag operators will be reaching the point where they must acquire new tonnage. The weakend financial state of most of these companies is no secret but even the strongest competitor would be gutted if forced to build in the United States. Many of the U.S.-flag ship operating companies are also going public—being spun off from parent companies which long provided financial assistance. If they are to stand on their own feet, above all they will need investor confidence. Who could recommend a U.S.-flag company as a good investment when that company is put at an overwhelming competitive disadvantage by being required to build in the United States? The JMC knows of no one.

Granted, the prophecies of Armageddon sprout like dragon's teeth each year. This Subcommittee has been repeatedly told that the U.S.-flag fleet is teetering on the edge but somehow it is always patched together with a little sticking plaster here and a relief amendment or exemption there and sent out again like an old fighter. Eveyone has come to expect it to survive. This may work for another year—perhaps two—with some of the protecitve mechanisms that have been built in over the decades. But don't expect the first aid to last after that. I think that we have all finally come to the realization that time is finally running out and we are still stuck at square one with nothing to show for all our efforts. We therefore urge all the Members of the Commerce Committee to report out S. 2499 favorably, without major amendment, and then devote their full attention to a resolution of the build abroad question. Without some sort of answer to the U.S.-flag companies' need to acquire modern and efficient tonnage all other legislation will be pointless.

Mr. Chairman, we appreciate this occasion to express our views on the fiscal year 1985 Maritime Administration Authorization measure. The Joint Maritime Congress looks forward to continuing to work with you and the entire Committee to improve the efficiency, competitiveness and size of the U.S.-fleet.

Respectfully,

DAVID A. LEFF.

STEAMSHIP WATERMAN CORP.,
Washington, D.C., April 9, 1984.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR CHAIRMEN PACKWOOD AND STEVENS: On behalf of Waterman Steamship Corporation, we request that the following comments be considered by the Senate subcommittee on Merchant Marine, Committee on Commerce, Science and Transportation in the course of its deliberations concerning the reauthorization for programs of the Maritime Administration (S. 2499). The adoption of an authorization bill for the ensuing fiscal year should not be viewed only as a budgeting vehicle but also as a means to implement various approved policies of the current Administration. For example, the budget does not provide funds for construction differential subsidy nor for the possibility for additional entrants into subsidized U.S.-flag service. These policy decisions are clearly set out in the budget message (pg. 5-80 and 81) wherein it is stated that:

Based on its 1982 review of U.S. maritime policy, the administration again proposes several initiatives to help revitalize the maritime industry. Included are legislative and administrative changes that would streamline or eliminate many of the regulatory restrictions under which the U.S Merchant Marine now operates, thereby reducing costs. One of the most significant elements of the administration's policy is to permit subsidized U.S.-flag ship operators to build or acquire their ves-

sels in foreign countries. This will permit operators to acquire modern, efficient ships in a cost-effective and timely manner. Consequently, the administration continues to propose eliminating ship construction subsidies; that program has been unsuccessful in fostering a modern fleet of U.S.-flag vessels. U.S. shipyards will have ample work from the expanded Navy shipbuilding program. . . . The budget proposes $378 million in budget authority for operating subsidies in 1985 to meet the Government's obligations on existing contracts; no new contracts are anticipated.

While not objecting to the authorization bill as presented to the Subcommittee, Waterman Steamship Corporation wishes to express its concern that the adoption of this bill without taking into consideration the overall policy objectives of the Administration is not in the interest of this corporation nor of the American merchant marine as a whole.

On April 8, 1983 the Secretary of Transportation submitted a series of proposals to the Senate which were intended to implement various outstanding elements of the President's maritime policy. Included in these proposals were amendments to the Merchant Marine Act, 1936, as amended, which are in our view, critical to the ability of existing subsidized operators to attract alternative sources of capital and to upgrade and modernize their fleets. Consideration by the Committee of these proposals in the context of the authorization process is not only logical but also crucial to the industry and to Waterman particularly as it endeavors to reorganize itself pursuant to Chapter 11 of the Bankruptcy Code.

The most serious of our concerns relates to the ability, in the absence of funding for construction differential subsidy, to build ships in foreign shipyards and upon documentation of three vessels to operate them without restrictions pursuant to existing subsidy contracts and cargo preference laws.

To deny foreign building authority while at the same time refusing to fund construction differential subsidies will place operators in a position in which they must effectively give up their operating subsidy rights on a piecemeal basis in order to enhance their fleet. Over time, the result of such a one-sided program will simply permit the Government to abrogate its contractual obligations without any consideration to the rights of the other party to the contract.

As Waterman explores possibilities for new capital and business opportunities in the course of its current reorganization, the removal or modification of this type of restriction which have contributed to the continuing demise of the subsidized industry becomes crucial.

We thank you for your consideration of the views we have expressed herein and would request that these issues be considered by the Subcommittee as it acts upon the Maritime Administration Authorization Bill S. 2499.

Sincerely,

E. P. WALSH,
President.

STATEMENT OF JESSE M. CALHOON, PRESIDENT, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. Chairman, the Marine Engineers are deeply troubled by this year's budget for the U.S.-flag fleet. We are concerned because the U.S. Merchant Marine is being offered a bitter diet of shrinking funds and faint hopes that cannot keep up with the accelerating extinction of our fleet.

The Marine Engineers are equally troubled that a total budget so attuned to America's defense needs blatantly ignores the role of the Nation's merchant fleet to deploy and sustain our forces abroad. All of the troops and new technology that we are currently spending money on will amount to no more than an overstuffed scarecrow if we cannot deliver them to crisis areas around the globe. I don't understand how the White House, Congress and the Pentagon can trumpet the importance of a merchant marine when the total 1985 projected outlays for water transportation—including the Coast Guard budget—are only 11 percent of DOT's outlays, 1.1 percent of the Defense budget and 0.3 percent of the National Budget. Frankly, I am tired of hearing how we must have a merchant marine—yet no one is willing to pick up the check, even when the bill is a modest one.

All these roads lead to the need for a definitive answer from the Pentagon as to merchant ship requirements for national security. It is also apparent that if DOD needs these ships, ready and manned for a crisis, they must bear their share of financial responsibility. If we are indeed committed to preserving peace through deterrence, as the President has often stated, then we must demonstrate that we are capable of sustaining our armed forces through conventional methods.

The unfortunate truth is that the Soviets—with thousands of ships—can get to our shores in a war; we have nowhere near a comparable ability to get to their shores or even to support our NATO allies. Therefore, reading this maritime budget, a reasonable person could conclude that our defense planners intend to fight the next war on American soil, or failing that, to use the final, darker weapons of war as the only solution to a crisis. This is the ultimate future price for failing to invest today in sealift resources for tomorrow.

Mr. Chairman, the Marine Engineers' patience is wearing thin. We have backed this Administration's initiatives from the start. However, we cannot help but be disappointed that there is still no comprehensive maritime program. This genuine frustration will only get worse unless we have a clear, feasible directive embracing maritime and national security concerns. Most of all, the President must tell DOD that the merchant marine is not an illegitimate child in the defense family but a contributing member worthy of respect and a place in its budget.

In conclusion the Marine Engineers acknowledge their qualified support of S. 2499, but we do not greet it with any enthusiasm. The proposed fiscal year 1985 budget is hopelessly inadequate to meet the needs of the U.S.-flag fleet but we still must have this bare bones funding in the interim. Furthermore, it is important to pass a maritime authorization bill after three years of failure if only to succeed at this basic piece of business.

STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE

Mr. Chairman and members of the subcommittee, we appreciate the opportunity to provide this statement for the record on S. 2499, legislation authorizing funding for maritime programs for fiscal year 1985. The Transportation Institute is a nonprofit research and educational organization dedicated to the promotion of a strong American merchant marine. Our 174 member companies operate U.S.-flag vessels in the Nation's foreign and domestic shipping trades, including the Great Lakes and inland waterways.

The Transportation Institute supports full funding of essential maritime programs under the auspices of the Maritime Administration (MarAd) and the Federal Maritime Commission. These programs represent this Nation's long-standing Congressional commitment to a strong and healthy merchant marine. We commend the Subcommittee's continuing efforts to adequately fund these programs which are crucial to the maintenance of the U.S. maritime industry. We also deeply appreciate efforts by the committee members to thwart attacks on other components of the Nation's maritime policy, specifically the Jones Act and cargo preference laws. Your task continues to be a difficult one and the Transportation Institute stands ready to assist this body in restoring the U.S. maritime industry to the strong source of commerce and security it once was and must be again.

One of the most important responsibilities of a government anywhere in the world is to protect its country from threats to national security. Unfortunately, achieving national security does not come easily or without cost. As this Subcommittee knows, one very important component of any national security force is its merchant marine. Other nations of the world have recognized the importance of a strong merchant marine and are placing increased emphasis on their merchant fleets, while in contrast the United States is allowing its fleet to disappear rapidly. This dangerous situation must be reversed. In light of ever-growing worldwide tensions, the United States must fight for the survival of its merchant marine. The military actions in Lebanon and Grenada emphasized the importance of a merchant fleet to help sustain seaborne supply lines. The ability of the United States to maintain its national security interests ultimately depends on the strength of a reliable U.S.-flag fleet.

The Navy Department crisis contingency plans require utilization of the U.S. merchant marine as part of its sealift program. This support role is based, however, on the availability of U.S.-flag ships in numbers which simply do not exist today. At this time, U.S. sealift assets have been contracted to provide assistance to naval forces in the Caribbean, the Sea of Japan, and near the coasts of Central America and the Middle East. As of yet, none of these hot spots has flamed into a crisis situation, but the combined forces of the U.S. navy and U.S.-flag ships are only marginally adequate to meet current needs. If one or more of these areas required U.S. naval reinforcements in the event of a real crisis, U.S. sealift assets would fall short at precisely the moment when the Nation would need them most to protect our allies and strategic resources.

For some time, the problems of the industry have been approached on a piecemeal basis. The dangers of such an approach are aptly stated in a recent study conducted by the Congressional Office of Technology Assessment. As part of its conclusion, the study warned that a patchwork of outdated federal policies is failing to address the critical problems facing the U.S. merchant marine. The federal report also sounded an alarm that the U.S. fleet is facing a continuing "decline in size and influence" unless urgently needed policy changes are adopted. We urge Congress, and this Subcommittee, to give serious consideration to this study and its rather pointed conclusions.

Leading maritime nations have recognized the importance of a strong merchant marine and consequently give full support to their shipping and shipbuilding sectors. It is for this reason that free trade does not exist in the world shipping market and thus cannot be allowed to dictate future maritime policy. Most foreign-flag fleets are given tax benefits and are otherwise subsidized by their home governments. There are 68 countries which currently enforce cargo preference policies. For example, the Soviet Union and other totalitarian states build up their fleets at government expense, and, as a result, the Soviets carry more than half their international cargoes in Soviet merchant ships. In glaring contrast, the United States only carries four percent of equivalent cargoes. Since a very high percentage of the goods that the United States needs to function smoothly are shipped to our shores from distant sources, we are putting the Nation's economic security into jeopardy. With these serious disadvantages in mind, U.S. maritime programs should be viewed not a protectionist or contrary to free trade, but as restoring economic fairness and balance and as a key reinforcement to U.S. defense efforts.

In conclusion, it is imperative that the Nation develop a viable maritime policy once and for all. If the U.S. maritime industry is every again to regain its former position of power and strength, it is critical that policy makers put forward a series of new ideas and fresh initiatives. We wish to thank you for the opportunity to present our views and pledge our continued cooperation in your efforts to insure a strong maritime industry capable of fulfilling the Nation's economic and defense goals.

STATEMENT OF JULIAN H. SINGMAN, PRESIDENT, MARITIME INSTITUTE FOR RESEARCH AND INDUSTRIAL DEVELOPMENT

Mr. Chairman and members of the subcommittee, my name is Julian Singman. I am President of the Maritime Institute for Research and Industiral Development (MIRAID). MIRAID is a non-profit corporation of International Organization of Masters, Mates and Pilots signatory companies. Our membership includes companies operating United States-flag vessels in all aspects of our nation's foreign and domestic trades. Our Board of Directors includes companies broadly represenatative of our waterborne international and interstate commerce as well as the Presidents of key maritime labor unions and of the AFL-CIO itself.

We appreciate this opportunity to present our views on the coming fiscal year budget proposal for maritime programs of the Maritime Administration. The President's fiscal year 1985 budget request for operating differential subsidy is $378 million. As in fiscal year 1984 and fiscal year 1983 this figure represents the minimum funding necessary to meet existing ODS obligations and maintain operation of all U.S.-flag vessels currently engaged in foreign trade under subsidy contracts. We deplore the persistent refusal of the Administration to adopt a more positive attitude toward expanding the ODS system to permit the entry of new operators or the enlargement of presently subsidized services.

Like most maritime people, we are realists. We understand the budgeting constraints upon Congress and the resultant reluctance to make additional ODS funds available. Simply continuing to provide the minimum, however, does nothing to ensure the economic viability of the present fleet let alone stimulate growth. If holding the line of the present ODS system is inevitable, which this Administration appears to insist upon, then it is essential to the future operation and expansion of the American Merchant Marine, and indispensable to our economic and defense planning, that new and alternative systems of government aid and support by proposed and implemented in order to enable American operators to compete more equitably with their foreign counterparts. Neither the Administration's budget not this bill does that.11In October of last year the Office of Technology Assessment released a report titled, "An Assessment of Maritime Trade and Technolgy." This report, prepared at the request of the House committees on Merchant Marine and Fisheries

and Ways and Means stated, "It is clear that major new or revised Federal policies are needed if the U.S. Maritime industries are to remain healthy in the decades to come." Existing Maritime policies were characterized as "a patchwork of measures adopted at various times to address specific needs."

Nowhere is this more true than in the area of vessel construction and conversion for American operators. This is the fourth straight year in which no construction subisidy has been requested. Congress responded to the Administration's failure to support new construction subsidy funds by granting ODS operators limited authority to have work perfomed in foreign shipyards. That authority expired September 30, 1982, and has not been extended. We are no closer today to an overall policy that would enable U.S. liner operators to build in the U.S. and not be placed at a competitive disadvantage than we were three years ago. Unfortunately, American-flag liner operators find themselves the innocent victims of the Administration's budget cutting in the ship construction area. We fully support the maintenance of a domestic shipbuilding base for commercial vessel conversion and construction, but we also urge that steps be taken to allow American operators to modernize and expand their fleets pending the development of a U.S. shipbuilding program. It is time that the Congress relieve American-subsidized liner operators of the dilemma our government has placed them in: they can't build replacement vessels here because the law won't let them. American liner operators have indicated their desire to build domestically, provided they have full parity with their foreign competition with regard to cost, technology and delivery time. If full parity cannot be achieved either through direct subsidy or other incentives then U.S. operators must be permitted, out of necessity, to acquire or construct vessels in the world market.

In this connection we also urge that American companies having capital construction funds be authorized to use those funds for building replacement vessels wherever built. If such action is not taken our tax laws, especially "Subpart F" of the Internal Revenue Code will continue to encourage the growth of a foreign-flag rather than an American fleet because its benefits are available only for foreign investment. We therefore also urge that "Subpart F" itself be amended to confer its tax deferral privileges upon American taxpayers who reinvest in American shipping operations, as well as in foreign shipping operations.

If U.S.-flag ships are to compete effectively against their foreign-flag rivals, operating cost differentials must be brought to parity so far as possible. Past efforts by the United States Government to help equalize wage and benefit differentials have not been as effective as desired and, as some claim, have even rewarded inefficiency. In any event, additional help from the U.S. Government is needed to balance the scales. MIRAID believes that legislation to exempt from U.S. income taxes the earned wages of crew members serving aboard any commercial U.S.-flag ship under Foreign Articles of Agreement may serve this purpose. With such an exemption, wages could be rolled back so that each seaman could gross less and take home the same; but each operator would pay less in total wages. This in turn could mean a smaller operating subsidy payment per vessel. This concept is comparable to the principle embodied in the Internal Revenue Code which exempts a portion of income earned abroad by certain U.S. citizens working abroad in hardship conditions. This proposal, while new to the United States, is used by other maritime nations. Norway, Finland, Denmark and the United Kingdom, for example, have special provisions for the tax treatment of merchant seamen. Recently the government of Sweden adopted a proposal by the Swedish Shipowners' Association to remove all income taxes on merchant seamen and officers.

In light of the fact that an authorization bill has not been signed into law for the past two years, we can appreciate the desire to keep this legislation free from controversial amendments which might result in another year without authorizing legislation. However, we must take this opportunity to reaffirm our strong opposition to that proposal that would allow subsidized tankers to repay subsidy and enter the domestic trades. While such a rule cannot be implemented until June 15, 1984, we would urge the Committee to take action in whatever way you see fit to prevent permanently the Secretary of Transportation from implementing such a policy.

On the issue of surplus Jones Act tanker tonnage I would like to remind the Subcommittee that recently the Maritime Administration withdrew approval for several subsidized VLCC's to continue hauling Alaskan crude under six month waivers because several Jones Act tankers were without charters. Certainly, the CDS-payback rule if adopted would further exacerbate this overtonnaging problem in that trade.

Finally, Mr. Chairman, we vigorously oppose the Administration's proposed annual limitation of $900 million on loan guarantee commitments under the Title XI Federal Ship Financing Program. Of that amount $300 million would be held in

reserve to be used "only if needed in the interest of national security." We believe the proper action is to increase statutory limit on total guarantees to permit the program to expand if market forces so dictate. We also believe that the Title XI program should be used primarily for the purpose for which it was intended to support and bolster the renewal of our deep sea fleets.

The Title XI program has been extremely successful in stimulating domestic ship construction. The percentage of commercial shipbuilding and conversion work financed through Title XI increased from 16 percent in 1970 to approximately 63 percent in 1981. The program is completely self-supporting through fees paid by participants. We see no logical reason to impose arbitrary limits on such an important program.

In conclusion, we greatly appreciate this Subcommittee's support for the American Merchant Marine and look forward to working with you in the months ahead.

STATEMENT OF FRANK DROZAK, PRESIDENT, MARITIME TRADES DEPARTMENT, AFL-CIO AND SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA

Mr. Chairman and Members of the Subcommittee: My name is Frank Drozak. I am President of Maritime Trades Department, AFL-CIO and the Seafarers International Union of North America, AFL-CIO. I appreciate the opportunity to comment on legislation to authorize appropriations for maritime programs for Fiscal Year 1985.

The Maritime Trades Department and the Seafarers International Union strongly supports the principles embodied in the Merchant Marine Acts of 1936 and 1970. These Acts provided for the "development and maintenance of an adequate and well-balanced American merchant marine" and established such programs as the operating-differential subsidy (ODS) and the construction-differential subsidy (CDS) to help achieve these goals.

As the Congress prepares to deliberate the merits and funding requirements for these and other programs under the auspices of the Maritime Administration for FY 1985, we would like to share our thoughts with you on these matters of paramount importance to the U.S. merchant marine.

The unfortunate state of affairs which exists in our country's maritime industry today must be reversed. The fact of the matter is that less than 4 percent of all U.S. trade is carried on U.S.-flag bottoms. This statistic will not improve unless we give full support to existing programs or develop alternative methods to insure an adequate fleet capable of meeting America's security requirements.

When this Administration began, we were hopeful that positive changes would be implemented which would begin the awesome task of rebuilding the U.S. merchant fleet. President Reagan, as a candidate, had set out an eight-point program aimed at effecting just such a beginning. His proposal embodied such principles as insuring an adequate shipbuilding mobilization base, recognizing that "free trade" cargo policies do not reflect fair trade for the U.S. international shipping community, and preserving the vital integrity of the Jones Act cabotage laws.

However, it has become apparent, these proposals were nothing more than empty promises. We have watched as the Public Health Service hospitals were closed and U.S. seamen turned away at the doors. We have seen the contraction of the shipbuilding base as new CDS funding has been eliminated. We have had to live with executive action placing severe restrictions on the amount of Title XI funds available for obligation on an annual basis. Moreover, we have continually been forced to fend off attacks on the government-impelled cargo requirements of such programs as P.L. 480, the Commodity Credit Corporation, cash transfer and blended credit. It has been my firm belief that this disturbing trend must cease; it is my unfortunate conclusion that there is still no movement to stop it.

In this year's authorization, the Administration has requested only about $378 million for the operating-differential subsidy program. ODS is aimed at providing equity for U.S. shipping in the international trade in much the same way that most other maritime nations provide direct or indirect subsidies for their fleets. The economic benefits of the ODS program are numerous. A study published by the Maritime Administration revealed that the $1.9 billion expended in operating-differential subsidy between 1970 and 1978 generated $11.6 billion in output throughout the entire economy and provided 196,000 man-years of employment in the maritime industry. ODS is, furthermore, an essential part of our nation's maritime philosophy at this time and we believe the ODS program should continue to be funded at the highest level, and that the new contractual authority be allowed.

We are deeply concerned with recently proposed ODS buy-out schemes. ODS is one of the few remaining support programs for the U.S. Merchant Marine. Numerous other nations subsidize their fleets, recognizing that "free trade" in the international shipping industry is a myth. Before this vital U.S. subsidy program is allowed to die a viable substitute must be implemented.

We are also concerned with the Administration's continued failure to request funds for the construction-differential subsidy (CDS) program or to put forth a comprehensive maritime policy proposal. In the above-mentioned MarAd study it was determined that the $1.4 billion appropriated in CDS during the same period has led to the construction of vessels and marine equipment valued at $4.2 billion while providing 136,000 man-years of shipyard employment.

The CDS program cannot be abandoned at a time when there is no comprehensive maritime program designed to adequately replace existing promotional policies. Nor can we countenance the continued tampering with extant policies as a substitute for a much-need comprehensive maritime policy to revitalize the U.S. fleet.

The time has come for the Administration and the Congress to finally answer the one basic question. Do we want a merchant marine, or don't we? We believe that the nation's economic and security interests dictate that this question be answered in the affirmative. It then becomes merely a question of developing a total program to put the merchant marine back on its feet. We are at a cross-roads. Without a full fledged effort, the merchant marine will not be around much longer.

Thank you.

STATEMENT OF PAUL J. BURNSKY, PRESIDENT, METAL TRADES DEPARTMENT—AFL-CIO

Mr. Chairman, these views are being presented on the Fiscal Year 1985 authorization for the Maritime Administration on behalf of the almost 5 million members of the 21 national and international unions that make up the AFL-CIO Metal Trades Department. Our Department represents U.S. naval shipyard workers and most skilled workers in major commercial shipyards under collective bargaining agreements negotiated by our various local and district councils.

Last year, in a similar statement presented to this Subcommittee, I deplored the disastrous impace of the Reagan Administration's "build foreign" initiative and its failure to recommend to Congress a comprehensive maritime policy that had been promised by candidate Ronald Reagan during the 1980. Another year has gone by and still the Administration has not been able to fashion a workable plan that will maintain our skilled sipyard workforce, the shipbuilding industrial base, and our historic position as one of the leading nations in world trade and merchant shipping.

Much valuable time has passed, but little progress has been made during the almost three and a half years since President Reagan took office. Meanwhile, many thousands of American shipyard workers have lost their jobs despite increased Navy shipbuilding contracts. The size of our U.S. merchant fleet continues to dwindle and become more obsolete. Our position in the world trade markets has become a severe deficit status and we become even more reliant on foreign shipping for strategic and critical materials so important to our national security.

Unfortunately, Congress has not been sufficiently motivated to reassert its traditional leadership role in merchant marine and shipbuilding policies. Legislation that would help reverse these dangerous policies remains stalled in this committee and its House counterpart.

Mr. Chairman, it should be abundantly clear that this Administration has no understanding of the dimensions of the shipbuilding and merchant marine problems that confront us. In its Fiscal 1985 budget narrative, the Administration repeats its totally false view of the situation. It states: (emphasis supplied)

". . . *One of the most significant elements of the administration's policy is to permit subsidized U.S.-flag ship operators to build or acquire their vessels in foreign countries.* This will permit operators to acquire modern, efficient ships in a cost-effective and timely manner. Consequently, the administration continues to propose eliminating ship construction subsidies; that program has been unsuccessful in fostering a modern fleet of U.S.-flag vessels. *U.S. shipyards will have ample work from the expanded Navy shipbuilding program.* The approximate value of unfinished shipbuilding work in private shipyards has increased from $11.1 billion in 1980 to $20.7 billion in 1984, *all of the increase attributable to the Navy program.* The budget proposes $378 million in budget authority for operating subsidies in 1985 to meet the Government's obligations on existing contracts; no new contracts are anticipated." (Section 5-81—Transportation)

Certainly, someone in the Administration's vast bureaucracy within OBM must know that our shipbuilding mobilization base *cannot* be maintained on the basis of Navy shipbuilding alone, since only a small handful or private shipyards are contractors. Certainly, the experts who participated in the Navy/MarAd study of maritime/shipbuilding problems, as well as experts testifying before this subcommittee in recent days, are unanimous in their view that the volume and importance of backlog Navy shipbuilding work had been grossly exaggerted by the Administration as a mechanism in preventing the mass destruction of the U.S. shipbuilding capability. The fact is that Navy work alone will not keep the American shipbuilding mobilization base alive for many years, let alone help restore it to economic vitality. We must have commercial shipbuilding orders to accomplish that vital objective and this is impossible when the Administration encourages "build foreign" policies. To make commercial U.S. shipbuilding again viable, we must have policies that will assure that a fair and equitable share of U.S. cargoes entering the world market be shipped in U.S.-flag vessels. In short, Mr. Chairman, we must have a realistic, comprehensive shipbuilding and maritime policy that will truly serve our own national interest, not the combined sum total of the special interests of the operators, shippers, growers, producers, and others who perceive their own economic short-term gains as paramount, and which seem to be the only groups that the Reagan Administration pays attention to. This comprehensive public interest shipbuilding and maritime policy must give adequate attention to the importance of meeting our national defense shipbuilding mobilizaiton requirements and the maintenance of a technologically skilled shipbuilding manpower supply. We must make certain that when the time comes—as it did so dramatically in World War II—that we have the necessary shipbuilding skills—people working in our shipyards—who already know how to build ships. We must have modern, efficient merchant vessels in our U.S. merchant marine, with adequate numbers of skilled seagoing crews of Americans to proudly fly the U.S.-flag to the far corners of the globe bringing the fruits of our commerce, industry, and farm commodities to peoples everywhere. We must have foreign trade and domestic policies that will help assure our ship owners, shippers, and producers of a fair competitive position in world trade. This Administration, despite its lofty promises in 1980, has failed miserably to achieve any of the elements of public national maritime and shipbuilding policy. It is clear that this Administration does not even understand what these issues are in the real world of 1984. That is we are now, and have continued to urge, that Congress take the leadership role by taking the necessary first steps toward the creation of a truly representative national shipbuilding and maritime policy. Congress cannot abide, and the Nation cannot survive continued inaction at this crucial time. This is not the time to sit back and urge irreconcilable competing interests to "reach a consensus" before taking action to address the complex problems involved.

It is ironic, indeed, that unless action such as is urged by our Department and others who have testified before this subcommittee is taken promptly by the Congress, the 98th Congress may best be remembered by what might be called "negative" leadership in at least blocking some of the worst special interest legislation that would make our shipbuilding and maritime problems even worse. I refer to such measures as those to make the "build foreign" authority permanent and virtually unlimited; those that would give foreign-built vessesl instant access to the government-impelled cargo carriage market; those that would permit U.S-flag ship operators to use tax-deferred funds in the Capital Construction Fund (CCF) to construct, reconstruct, or acquire foreign-built vessles; to permit an increase in foreign investment in U.S-flag shipping companies from the current limit of 49 percent to 75 percent; to relieve U.S.-flag shipping operators of the present 50 percent ad valorem duty on repairs performed in foreign shipyards without being subject to the current 100 percent penalty in operating-differential subsidies. We also applaud the committee's action in blocking S. 1197, the so-called Cunard bill for special interest "re-flagging" on the *Princess* and the *Countess*—a move that would quickly kill off current efforts to revive the American cruise shipbuilding industry and cost thousands of new job opportunities for unemployed shipyard workers.

But the blocking of bad legislation or regulations is no real substitute for the vital need for Congressional leadership to forge a comprehensive shipbuilding program and realistic maritime policies that will promote the interest of our country as a whole, not just the specialized interests which are as shortsighted as they are vocal. While the Fiscal 1985 MARAD authorization legislation is not the vehicle for such a comprehensive undertaking, we urge this committee to address itself to the complex problems of the real world of shipyard depression, unemployed workers, eroding defense shipbuilding capability, our weak and obsolete merchant fleet flying the U.S.

flag, and how the sum of these problems seriously impacts on our national defense and world trade positions.

Thank you for the opportunity to present these views of the AFL-CIO Metal Trades Department.

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